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Print Edition November 25th 2006

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It is good that the world's leading market faces so much competition; bad that it has done so little to confront it: leader

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Politics this week

Nov 23rd 2006
From The Economist print edition

EPA

Pierre Gemayel, **Lebanon's** minister of industry and a member of a famous Christian political dynasty, was shot dead in Beirut, inflaming sectarian tensions. The Lebanese army took to the streets while the country observed three days of mourning. Many fingers pointed at Syria, but Damascus strongly denied any involvement. See article

Syria and **Iraq** agreed to restore diplomatic relations after a break of 24 years. The charm offensive by Syria, long suspected of stirring turbulence in Iraq, followed a visit by its foreign minister to Baghdad, the first by a senior official since the toppling of Saddam Hussein. Meanwhile, Iraq's president planned a visit to Iran. And George Bush said he would travel to Jordan next week to meet Iraq's prime minister.

A new UN report noted that this year more than 2m Africans will die of AIDS, nearly three-quarters of all the AIDS-related deaths on the planet. See article

The Supreme Court in Kinshasa, **Congo's** capital, was set on fire by supporters of Jean-Pierre Bemba, the losing candidate in last month's presidential election. Mr Bemba had asked the court to rule that the victory handed to Joseph Kabila was unfair. See article

A French judge said that **Rwanda's** president, Paul Kagame, should be put on trial for allegedly orchestrating a plane crash in 1994 that killed his predecessor, Juvénal Habyarimana. The incident marked the beginning of the genocide there. Rwanda's government said the French claim was baseless.

Responding to an order to clamp down on a spate of kidnappings in **Nigeria's** Delta region, the country's army carried out an operation to free seven foreign workers who had been captured from a ship. One British hostage and two kidnappers were killed.

A safe pair of hands

Mexico's president-elect, Felipe Calderón, unveiled his economic team, naming Agustín Carstens, a former IMF official, as finance minister. Earlier, Andrés Manuel López Obrador, the narrow loser of last July's presidential election, proclaimed himself the “legitimate” president at a rally of tens of thousands of his supporters.

Six of the nine elected regional governors in **Bolivia** said they were breaking relations with Evo Morales, the socialist president, over a bill that would allow the central government to scrutinise their funds and the Congress to sack them. The opposition walked out of the Senate in protest over that, land reform and other measures. See article

Nicaragua's outgoing president signed into law a measure outlawing all **abortions**, including when a woman's life is in danger. Chile's Congress rejected a bill that would have legalised abortion in some circumstances.

Consensus politics

AP

The **Dutch election** produced an inconclusive result, but it gave the ruling Christian Democrats under the outgoing prime minister, Jan Peter Balkenende, the most seats. Mr Balkenende must now scrabble around for coalition partners;

the negotiations could take months. See article

Allegations continued to fly that **Russian intelligence agents** had poisoned a renegade comrade who defected to Britain. Alexander Litvinenko remained in intensive care in a London hospital after his apparent poisoning. Several prominent critics of the Kremlin have been poisoned or shot in the past few years. See article

Italy's government sacked the chiefs of all three of its intelligence agencies. The cause was apparently the involvement of one agency in a CIA kidnapping of a Muslim cleric in Milan some years ago; but others said the spies were not proving loyal to Romano Prodi's centre-left government. See article

The European Union gave **Turkey** a deadline of December 6th to open its ports and airports to Greek-Cypriot ships and aircraft, but Turkey has already said it will refuse. The likely outcome is that those chapters in the EU accession negotiations with Turkey relating to trade and free movement will be frozen.

In **Poland**, 23 miners were killed in a gas explosion at their mine in the Silesia region. It was the country's worst such disaster since 1979.

Leadership challenges

In the United States the **Democrats** continued to put their new leadership team in place but insisted they were still united after rejecting John Murtha for majority leader in the House of Representatives, choosing Steny Hoyer instead. Mr Murtha was championed by Nancy Pelosi, who will become speaker when the new Congress starts in January.

Rupert Murdoch made a rare apology and agreed that the decision of his company to publish a book by **O.J. Simpson** recounting hypothetical details of the murder of his ex-wife and her friend was “an ill-considered project”. The book has now been scrapped and a television interview cancelled after a backlash. See article

NASA scientists conceded that they had probably lost the **Mars Global Surveyor** in space. The probe, launched ten years ago, has been one of the most successful missions run by America's space agency, photographing Mars in unprecedented detail.

Peace celebrations

AP

The government in **Nepal** signed a comprehensive peace agreement with the country's Maoist rebels. On paper, this brings an end to ten years of conflict. Maoist fighters started arriving at the cantonments where they are to be confined. See article

Marking a visit to Delhi by the Chinese president, Hu Jintao, **India** and **China** signed a raft of mainly trivial agreements. The two countries said they would try to double their bilateral trade by 2010.

In Washington, DC, the Senate approved controversial legislation that would open the way to **nuclear co-operation** with India, despite its having tested nuclear weapons and never having signed the non-proliferation treaty.

In Hanoi, leaders of the **Asia-Pacific Economic Co-operation (APEC)** forum held their summit and made their usual vague commitments to freer trade. George Bush discussed North Korea's bomb with his Russian, Chinese and South Korean counterparts.

Correction: Last week we erroneously reported that the summit George Bush was headed to in Hanoi was being held by ASEAN. Sorry for the confusion.

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Business this week

Nov 23rd 2006
From The Economist print edition

The **London Stock Exchange** rejected a second takeover bid by the American NASDAQ exchange. The LSE said the new £2.7 billion ($5.1 billion) offer still "substantially" undervalued it, and spurned a proposal for further talks. After NASDAQ revealed it had increased its stake in the LSE to almost 29%, attention turned to the Americans' chances of getting the LSE's biggest investors to support their offer. See article

Tributes were paid to **Milton Friedman**, who died on November 16th, aged 94. The American economist, a champion of free markets, laid the intellectual foundations for the ending of the post-war Keynesian consensus. Mr Friedman urged governments to cut spending and privatise state services, but gave warning that "Hell hath no fury like a bureaucrat scorned." See article

America's treasury secretary, Hank Paulson, gave a speech in which he called for balance in regulatory oversight of **capital markets**. Mr Paulson said that legislation should not be "excessive" or impose "needless costs", but he stopped short of calling for an overhaul of Sarbanes-Oxley rules, which critics say are intrusive. See article

A long-running TV drama?

A fight broke out for control of **ITV**, Britain's biggest commercial broadcaster. **BSkyB**, a pay-TV channel that is part of Rupert Murdoch's empire, bought a 17.9% stake in ITV, which was interpreted as an attempt to stymie a £4.7 billion ($8.9 billion) merger bid from **NTL**, a cable and phone operator in which Sir Richard Branson is the largest shareholder. Sir Richard called on regulators to intervene in what he fumed was BSkyB's "blatant attempt to distort competition", but ITV rejected NTL's offer as too low. See article

In a significant step towards an accommodation between newspapers and internet companies in lucrative classified advertising, several firms representing 176 **newspapers** in America reached a partnership with **Yahoo!** to share content and advertising online.

Google's share price continued to rise and pushed past $500 for the first time. The share price has gone up by around 40% since February, when investors took fright at negative reports about future growth. Google now has a market capitalisation of some $155 billion, more than eight times that of General Motors.

General Motors' share price came under pressure as it emerged that Kirk Kerkorian has cut his stake to 7.4% from 9.9%. Mr Kerkorian recently failed to persuade GM to create an alliance with Renault and Nissan and remains critical of GM's own blueprint to restructure its business.

Buy, buy, buy!

Hot on the heels of last week's $26.7 billion agreement to buy out **Clear Channel Communications**, a radio and outdoor-advertising company, the rush for big **private-equity deals** continued. In the largest-ever leveraged buy-out, **Blackstone** continued its property-acquisition spree by offering $36 billion for **Equity Office Properties**, America's biggest real-estate investment trust. It also emerged that Australia's **Qantas Airways** had been approached about a potential buy-out, said to value the airline at around A$11 billion ($8.5 billion). See article

Mining and metals firms also had an acquisitive week. **Freeport-McMoRan** secured a $25.9 billion deal for **Phelps Dodge**, a bigger mining rival which failed to cement an ambitious three-way merger with

Inco and Falconbridge earlier this year. And in the largest investment by a Russian firm in America, **Evraz**, a steel group controlled by a Russian oligarch, Roman Abramovich, said it was buying **Oregon Steel Mills** for $2.3 billion.

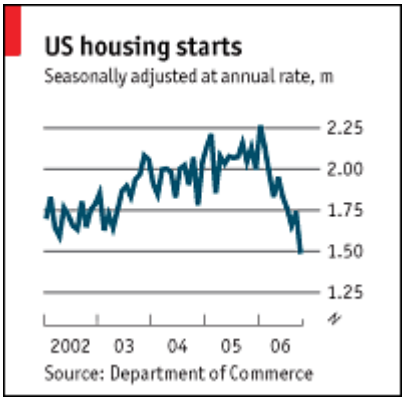
CSN, a Brazilian steelmaker, approached **Corus**, an Anglo-Dutch rival, about a takeover. The move puts pressure on India's **Tata Steel** to raise its recent offer for Corus. See article

The planned merger between **Gaz de France** and **Suez** was thrown into doubt again when the French courts said the deal could not be completed until workers facing privatisation at GDF had had more time to consider the agreement. The combination of the two utilities has been mired in controversy since the French government unveiled the plan in February.

Markets responded positively as the Ifo institute's index of **German business confidence**, seen as an indication of future growth in the euro area, reached a 15-year high.

Sinking economic foundations

Construction started on **new homes** in America at an annual rate of 1.49m in October, the lowest level for six years. The rate was 27% below October 2005—the biggest year-on-year decline since March 1991 (the housing market's slump has been blamed for weak growth in the third quarter). Meanwhile, the White House lowered its GDP **growth** forecast for 2007 to 2.9%.



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American capitalism

What's wrong with Wall Street

Nov 23rd 2006
From The Economist print edition

It is good that the world's leading market faces competition; bad that it has done so little to confront it

NOT since the 1980s, when the nation was in a spin about the coming of the Japanese, has there been such anxiety in America over foreign competition. The familiar concern that China is going to steal the country's remaining manufacturing jobs has been compounded by a newer fear: that Wall Street is losing its grip on the world's money. Bankers and politicians worry that business will drain away from America's capital markets to financial centres overseas, particularly London and Hong Kong. Several committees are sweating away on reports, the most important of which is to be published next week, on how to stop the rot. America's treasury secretary, Hank Paulson, made it clear in a speech on November 20th that he shares their concerns.

Although it is still the world's biggest market for capital, America's lead is shrinking fast in almost every area (see article). In some it has been overtaken. The most spectacular collapse has come in the market for initial public offerings (IPOs) of shares, where the New York exchanges, miles ahead a few years ago, now trail behind London and Hong Kong. American stockmarkets are actually shrinking as domestic firms go private or buy back their shares; and it isn't helping that foreign firms choose to list elsewhere.

This raises two questions. How has America's status as the world's sole financial superpower been eroded? And what, if anything, can it do to turn this around?

Onward, capitalist soldiers

The bad news for America is in part the result of good news elsewhere. Thanks to financial liberalisation (which America encouraged), New York faces a lot more competition than it used to. Developing countries are getting richer, and their companies and financial markets better governed. Firms that might once have rushed to American exchanges to privatise themselves are instead doing so at home, or at least nearby. London is seen as a natural home for companies from Russia. Chinese firms are turning more to Hong Kong, which is gaining a reputation for capital-raising as well as trading: witness the

gargantuan offering by ICBC, a bank, last month. As Asian markets mature, more of the capital there will surely never leave the region: there is little point in Asian companies going to New York to raise cash from Asian savers. Other markets are growing up, making Wall Street less exceptional.

But America is also responsible for its financial markets' decline by tangling them up in red tape. Nowhere is this clearer than the Sarbanes-Oxley act, an overhaul of corporate governance passed in 2002 in the wake of the Enron scandal. It's not all bad: parts of the law have successfully increased accountability to shareholders, and have been copied by regulators elsewhere. What's more, there is evidence that such rules lead to higher stock valuations because they suggest a commitment by managers not to abuse shareholders. But Sarbanes-Oxley went too far. The notorious section 404 on internal controls greatly increased the reporting burden on companies. Smaller firms, in particular, suffer.

With regulators soon expected to announce rule changes that will lighten the burden, the battle against Sarbanes-Oxley's excesses looks well on the way to being won. This should mean efforts can be directed elsewhere.

More economists, please

Towards shareholders, to start with. On the one hand, they have too few rights in their dealings with company boards; they have less power than their British equivalents when it comes to electing directors, for instance. On the other, American shareholders (or rather the lawyers who purport to represent them) wield too much power in securities litigation. Lawsuits brought because of falling share prices make a mockery of both the principle of *caveat emptor* and the honourable New York tradition of never giving a sucker an even break. Sadly, this is tied up in the much broader tort-law problem that bedevils American capitalism.

Regulators could also do with an overhaul. Here there are two problems, both serious. First, the Securities and Exchange Commission (SEC) is good at the tough stuff, bringing plenty of “enforcement actions”. But in its zeal to keep pace with crusading state attorneys, who exploit high-profile campaigns to win votes, it has lost sight of its other supposed goal—ensuring that markets run smoothly and efficiently. One way to address this imbalance would be to replace some of the SEC's vast army of lawyers with economists. That would also lead to better cost-benefit analysis of new regulations—an area where the SEC trails behind Britain's Financial Services Authority.

Second, the regulatory structure is too atomised. Too many agencies monitor the markets. There are four separate banking regulators. State and federal regulators tread on each other's toes. The SEC's duties overlap with those of the Federal Reserve, the Commodity Futures Trading Commission (CFTC) and others. Since it no longer makes sense for the increasingly entwined cash and derivatives markets to be policed by separate regulators, a sensible first step towards streamlining would be to merge the CFTC and the SEC.

Will America sort out its problems before the rot goes too far? The review of Sarbanes-Oxley shows the world's largest economy is aware of its shortcomings, and responding to them. Both parties recognise that reform is needed; though there is a danger that rising anti-business feeling (see article) may persuade the lawyer-friendly Democrats otherwise.

Still, even if reform fails and America falls behind, there will be compensations. Diversification has provided big financial institutions with a hedge against national decline, and it continues apace. The New York Stock Exchange is buying Euronext, a big European exchange, and sounding out the Tokyo bourse. NASDAQ, meanwhile, has launched a hostile bid for the London Stock Exchange (see article). And New York's investment banks are minting money overseas, not least from all those IPOs that have gone elsewhere. To many American capitalists, geography has never seemed less important—though that should not stop them untangling Wall Street.

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The future of NATO

The test in Afghanistan

Nov 23rd 2006
From The Economist print edition

Thanks to some shortsighted European politicians, the world's foremost military alliance is at risk

AFP

THE doomsayers were wrong. They predicted that, with the demise of Soviet communism, NATO would lose its raison d'être and vanish with the Warsaw Pact and statues of Lenin. Yet 17 years after the Berlin Wall came down, NATO's headquarters are still standing. Indeed, the alliance has grown bigger, and is busier than it ever was during the cold war.

When NATO's leaders meet in Latvia next week, they will have many successes to reflect on: the political achievement of bringing former communist foes into NATO and the family of European democracies; and the military interventions in the Balkans that helped to stop the fratricide of the 1990s and topple its chief instigator, the late Slobodan Milosevic. They will also face many tricky questions about the future (see article). How to complete the task of making Europe whole, free and at peace? How far and how fast should NATO grow? How should it deal with a resurgent and more authoritarian Russia? How should it guide Kosovo through an uncertain transition to independence? Recriminations over the invasion of Iraq will linger, even though America has rediscovered merit in multilateralism after its Mesopotamian misadventures.

Yet for the good of the alliance, and perhaps for the security of the world, NATO's leaders must find unity of purpose on one issue above all others: overcoming the weaknesses of the mission in Afghanistan. There, NATO has for the first time been engaged in bloody ground combat as it attempts to prevent the country from reverting to a failed state and terrorist haven. The alliance is trying to succeed where many previous armies have been defeated, including the British in the 19th century and the Russians in the 20th. This difficult task is made even harder by two failures. One is a failure to modernise European armies for expeditionary operations; the other is a failure of political will. Many allies simply refuse to send their soldiers to the dangerous regions where they are most needed.

A military alliance needs soldiers who fight

Although they have 2.4m men under arms, NATO's European members have struggled to meet requests for an extra 2,200 soldiers, and vital equipment such as helicopters, to make up a reserve for the Afghan mission. The problem is made worse by the countless “caveats”—restrictions placed by governments on what their contingents on the ground can do, where they can go and what equipment they may share.

In the 1990s America used to be regarded as excessively averse to risks and casualties. Now it is many of the European members who are running for cover. The British and Dutch have put their troops at the sharp end in southern Afghanistan, the heartland of the Taliban. The Canadians, once devotees of softly-softly United Nations peacekeeping, spearheaded NATO's assault on entrenched Taliban fighters outside Kandahar in September.

Unfortunately, too many others—the Germans, Italians and Spanish, to name a few—are working in safer areas and refuse to be deployed as the NATO commander would like. France, for instance, declined a request by NATO military chiefs for the deployment of the alliance's out-of-country reserve, a French battalion, on the questionable ground that it had to stay in Europe in case of trouble in the Balkans. It is difficult for any government to expose its soldiers to danger in faraway lands; harder still is to watch one's soldiers die while allies look the other way. There is no excuse for such half-heartedness. In Afghanistan, as distinct from Iraq, there should be no quarrel about the lawfulness of the mission. NATO is in the country under a UN mandate, operating in defence and at the behest of an elected government. The stakes are high: failure would not only bring back the Taliban and al-Qaeda, but embolden jihadists around the world.

A military alliance that stretches across the Atlantic will not always be able to unify around such a clear cause. During the cold war the Europeans depended on and deferred to their superpower protector (though France was always stroppy). In a world where military threats are dispersed and judgments differ about what to do about them, the alliance will not always be able to respond. The French in particular are keen to build the European Union's ability to act on its own in a military way, although European armed forces are still chronically short of the right sort of troops and machines.

An alliance for all seasons

And yet NATO and the EU do not need to see each other as competitors. The needs of both could be strengthened if Europe invested more in defence. Whether the extra troops and men ended up fighting in Europe's name or NATO's would depend on the mission at hand. Nor should a stronger NATO mean a weaker role for the United Nations. Sometimes it may be right for NATO to go to war without the UN's approval, as it did in Kosovo. At other times it would be right for it to make its forces available for UN operations. There are, though, limits to what it can do in that respect. In places like Sudan's western region of Darfur, for example, a direct NATO intervention would probably provoke accusations that the West was once again “attacking” Islam. There may even be a case for the UN one day to recruit military forces of its own, capable of intervening in conflicts under a UN mandate without being tainted by the political stance of donor nations.

For all its problems, NATO remains the world's foremost military alliance, because of the years it has spent working together, planning, training and designing forces and equipment that can operate jointly—all underwritten by American superpower. In the end, such a promise of mutual defence is a good insurance policy for all NATO's members. That is why countries still want to join it. America and Europe continue to share many values and interests. They may no longer face one common enemy, but they face common dangers, including terrorism, Islamist radicalism, an increasingly troublesome Russia, Iran's nuclear ambitions and instability in the Middle East. If the transatlantic alliance did not already exist, it would probably have to be reinvented. That is all the more reason not to fail the test in Afghanistan.

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Milton Friedman's legacy

Unfinished business

Nov 23rd 2006
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The ideas of a great economist changed the world. But not enough

Camera Press

IF YOU had to describe Milton Friedman with a single adjective—not an easy task—you could do worse than “tireless”. Until his death, at the age of 94 on November 16th, the American economist was still penning sharply worded newspaper articles on the merits of the free market. He was also involved in a television documentary to spread the word, a quarter of a century after his series, “Free to Choose”. Clearly, Mr Friedman thought he still had a lot of work to do. He was right.

This may seem a strange epitaph for the most influential economist of the past half-century (see article). When Mr Friedman was attacking the growth of the state and trumpeting freedom of choice 50 years ago, few listened; now many do. Ideas that once seemed daft—ending peacetime conscription, deregulating industries from transport to banking, the negative income tax, school vouchers—have become either reality or part of mainstream political discourse. And his impact was probably greatest in places where non-economists might not spot it: largely thanks to him, governments no longer believe they can buy permanently lower unemployment at the price of a little more inflation.

The incredible growing state

You could even be forgiven for thinking that the whole world had been remade in Mr Friedman's image. Communism no longer rules half of Europe. Even in China and Vietnam capitalism has taken hold. Politicians of left and right speak of the power, and sometimes of the virtues, of market forces. No wonder those forces are so often held to be untrammelled, unfettered or merely triumphant from Seattle to Shanghai.

And yet, and yet. The Doha round of trade talks is in tatters, because farm protection is still too precious. Politicians in both Europe and America continue to blanch at foreign takeovers. For the big picture, take the most obvious measure of the size of the state, the ratio of government spending to GDP. Since 1989, the year Ronald Reagan, the American president most in tune with Mr Friedman's ideas, left office, and the Berlin Wall came down, America's government has grown just as fast as its economy—an economy which has barrelled along for much of that time. The state's slice of GDP is forecast to be 36.6% in 2006, up from 36.1% 17 years ago. The public sector has also swollen in Europe's three biggest economies—Britain, France and Germany—and in OECD economies as a whole. Governments are as convinced as ever that they know best how to spend their citizens' money.

Education is a case in point, not least in Mr Friedman's homeland. For many years he argued that parents should be given more choice in how and where their children are schooled. The government, he said, should not spend money on their behalf, but should give them vouchers that they could spend on the education they thought best. Competition between schools would do more than any amount of bureaucratic direction to raise the often woeful standards of American primary and secondary education. This newspaper has long subscribed wholeheartedly to the idea of school vouchers. They are making headway, but too slowly, blocked by the teachers' unions (when did state-protected producers ever embrace competition?) and sometimes in court.

“Judged by practice,” wrote Mr Friedman and his wife, Rose, in their memoirs, published eight years ago, “we have been, despite some successes, mostly on the losing side. Judged by ideas, we have been on the winning side.” As summaries go, that is hard to beat. Those of liberal spirit, including *The Economist*, have plenty to thank Mr Friedman for—and, sadly, an enormous amount still to do.

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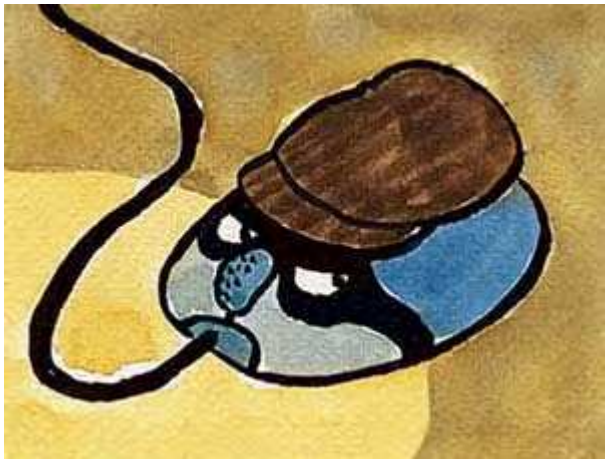
“Click fraud” poses a threat to the boom in internet advertising



WHAT makes Google so valuable? This week the search engine's share price rose above $500, valuing the company at more than $150 billion. Investors' optimism stems in large part from Google's dominance in the booming field of internet advertising, which is currently worth around $27 billion a year and is expected to grow to $61 billion by 2010. In the longer term the internet is expected to account for at least 20% of global advertising spending—around four times its share now. So there are years of growth still to come. But that rosy future could be in jeopardy unless the big internet companies, including Google, do more to clamp down on some dodgy practices on the web. Concern has been growing in recent months that “click fraud” might undermine the industry.

The problem is that many of the clicks on internet advertisements are bogus. The ability to aim such advertisements so that they pop up, for example, when a user searches for a particular word, is what makes them so valuable—and makes fraud so lucrative. American law firms, for instance, are prepared to pay as much as $30 each time someone clicks on an advertisement after searching for “mesothelioma”—the name of an obscure asbestos-related disease. It is, after all, quite an efficient way to find sufferers who might be interested in launching a money-spinning compensation lawsuit.

Sadly, cheating the system is easy. It is done in two main ways. The first exploits the fact that Google, Yahoo! and other firms place ads on the websites of their affiliates, who receive a small cut of the advertising revenue generated by each resulting click. Unscrupulous affiliates can generate a stream of bogus commissions by repeatedly clicking advertisements on their own websites (or getting other people or machines to do so on their behalf). The second form of click fraud is aimed at the competition: click on a rival company's advertisements, displayed on websites or alongside the results of an internet search, and its advertising budget will swiftly be exhausted.

Estimates of the extent of click fraud vary, but it is generally thought to account for around 10% of clicks on advertisements, though some estimates range as high as 50%. Disgruntled advertisers have launched class-action lawsuits against Google and Yahoo!, and big companies are threatening to hold back spending on internet advertising unless the industry generally becomes more transparent and accountable.

Been there, done that

To some extent, these are the ordinary growing pains of a new industry. A similar problem arose with television. After the first television advertisement was screened in 1941, advertisers wanted to know how many eyeballs they were getting for their money. Television companies were at first reluctant to tell them. However, during the 1950s and 1960s, proper rules, ratings and standards were gradually introduced.

Things are supposed to move more quickly on the internet. But the big internet firms seem to have been worryingly complacent. Small-business owners, to whom click-fraud is most apparent, grumble that Google and Yahoo! have tried to play down the scale of the problem. Eric Schmidt, the boss of Google, caused a storm earlier this year when he seemed to suggest at a conference that one solution to click fraud would be to “let it happen”, since advertisers would not be prepared to pay as much for bad clicks, so reducing commissions and hence the incentive for fraud. He also joked that Google's engineers were having “great fun” trying to keep ahead of the fraudsters. And Yahoo! concedes that click fraud has been a problem for years.

Stung by class-action suits, both Google and Yahoo! now insist they are taking the problem more seriously and have agreed to go along with an industry plan to draw up new standards and set up an independent auditing system to reassure advertisers by the middle of 2007 (see article). Both now provide refunds to advertisers who spot dodgy-looking referrals. Like recalcitrant teenagers, they are grudgingly giving in and doing the homework they should have done ages ago. But as well as shoring up the current system, internet firms must also devote more attention to developing new models that are less vulnerable to fraud, such as pay-per-action, in which advertisers pay up only if visitors referred to their websites actually buy something. Such new models will also require rules and standards to ensure that advertisers get what they pay for.

That will be difficult. But if the internet giants don't deliver what the advertisers want, advertisers will find other ways to market themselves. And if the advertisements evaporate, so will that remarkable $150 billion valuation.

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About sponsorship

The Middle East

The next little war, and how to avoid it

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Even after the assassination of Pierre Gemayel, fighting is likelier in Gaza than Lebanon

AFP

TONY BLAIR has been saying lately that the problems of Iraq cannot be solved unless the West recognises that all the problems of the region are connected. He therefore wants “a whole Middle East policy”. Some hope. Given how hard it is to find the right policy for Iraq or Iran or Lebanon or Palestine on their own, inventing a grand unifying theory of Middle East diplomacy is a task beyond the wit even of Britain's big-thinking prime minister. On one point, however, he is right. A lot of the Middle East, not just Iraq, is in a dangerous mess.

The murder this week of Pierre Gemayel, a Lebanese cabinet minister, is a reminder of one such danger. Following Hizbullah's “divine victory” against Israel last summer, the Shia-based party is trying to topple Lebanon's government. Hassan Nasrallah, Hizbullah's pro-Syrian, pro-Iranian leader, says he is trying to do this by strictly peaceful means (see article). He and his allies have pulled their six ministers out of the cabinet, enabling Shias to argue that the largest sect is no longer represented by the administration of the pro-Western prime minister, Fouad Siniora. Hizbullah and Syria deny killing Mr Gemayel, but are widely disbelieved. Christians see this as part of a pattern of murders through which Syria has been trying to wrest back the control it lost when its army was forced from Lebanon last year by outrage at what Lebanese assumed was Syria's killing of a former prime minister, Rafik Hariri, who had dared to question Syria's suzerainty.

Could all this start a civil war like the one that killed tens of thousands in the 1970s and 1980s? Some of the ingredients that went into making that war are present once again: precarious relations between Lebanon's finely balanced sects, a government in crisis and the interference of powerful outsiders, from France and America to Syria and Iran, eager to support their respective favourites. But other ingredients are absent. This time, for example, the Christians know that they would be outgunned; and the Lebanese as a whole seem desperate to avoid another calamity. A tough international message that talking to Syria about Iraq does not mean it has a free hand in Lebanon could help reduce the risks.

Where the fire will go next

It testifies to the general fragility of the Middle East that even after the Gemayel assassination Lebanon is only the second-likeliest location for the region's next violent clash. A bigger danger exists in the Gaza Strip. The low-intensity war that Israel and the Palestinians have been fighting there for many months now has the potential to become abruptly bloodier.

This is because of the failure of Ariel Sharon's last great gamble. He hoped that after Israel left Gaza last year the Palestinians would stop fighting. Not all did. Rockets have continued to fly almost daily across the border into Israel's southern towns. Israeli efforts to stop this barrage with air strikes, artillery and raids have killed hundreds of Palestinians, including civilians, but have not achieved their aim. Ehud Olmert, Mr Sharon's successor, is weak: he learned in Lebanon that military adventures can fail. But anger at the rockets is growing, so Israel is now debating whether to reconquer Gaza before the Palestinians smuggle in an arsenal of the kind that enabled Hizbullah to bloody Israel's nose last summer.

Can this invasion be prevented? Maybe. Mahmoud Abbas, the Palestinians' president, is pushing for a national-unity government to replace the Hamas-dominated one elected last January. Hamas refuses to accept Israel's right to exist, forswear violence or honour previous Palestinian agreements with Israel. This insistence on its rejectionist “principles” has resulted in an international embargo and brought economic misery to Gaza and the West Bank. The hope now is that Hamas can be made to accept a new government operating under guidelines that will allow the world to end the embargo, pave the way for a prisoner exchange and enable diplomacy to resume.

This will be a hard sell. Palestinians are in a bad way but in no mood to accept anything that smells like a surrender. Nor, understandably, are Israel or America willing to deal with a government that tears up previous agreements and says its aim is to destroy the Jewish state. Getting a deal will therefore depend on offering Hamas something substantial in return for modifying its stand. At a minimum, this would have to include a resumption of the tax revenues Israel has withheld, open trade across Gaza's borders and a clear signal—an international summit, perhaps?— that the longed-for Palestinian state will be more than just another of George Bush's ephemeral “visions”. The certain alternative is a lot more violence.

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Europe and Islam

No burqa bans

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Why it is nearly always wrong to outlaw the wearing of the Muslim veil

Reuters

WHAT you wear is a statement of who you are. From the old man's cardigan and frayed tie to the youngster's torn jeans plus lip-stud, dress stands for identity. For that reason laws on clothing should be avoided unless there is a compelling case for them. There is no such case for the Dutch government's plan to outlaw the wearing in all public places of the face-covering *burqa* and *niqab* by Muslim women.

As it happens, the plan's announcement by Rita Verdonk, the hardline Dutch immigration minister, was a political stunt aimed at reviving her party's flagging fortunes before this week's election (see article). But a new Dutch government, when one is eventually formed, may still adopt it. And the proposed ban follows a big debate about the Muslim veil in many other European countries.

In 2004 France passed a law to stop the wearing of the Muslim *hijab* (headscarf) by girls in state schools. Several German states have banned teachers from wearing the headscarf. One Belgian town has outlawed the *burqa* and *niqab* from its streets. Recently a former British foreign secretary, Jack Straw, caused a row by inviting his Muslim constituents to remove their veils when they met him; and a lawsuit confirmed that British schools could sack teachers who wore face-covering garments. Turkey, a mostly Muslim country, has banned the wearing of the veil in public buildings ever since Ataturk established the modern republic in the 1920s.

Those who favour such bans put forward four main arguments. First, the veil (especially the *burqa* and *niqab*) shows a refusal by Muslims to integrate into broader society; Britain's Tony Blair called it a “mark of separation”. Second, such clothing is testimony to the oppression of Muslim women; they are said to don veils largely at the behest (or command) of their domineering menfolk. Third, the display of religious symbols is an affront to secular societies (this line resonates especially in France and Turkey). And fourth, there are settings—the schoolroom, the courthouse—in which the wearing of Muslim veils can be intimidating or offputting to pupils or juries.

Some of these arguments are stronger than others, but none supports a blanket Dutch-style ban. Muslim dress can indeed appear as a mark of separation, but racial and sectarian discrimination surely counts far more—and bans on religious clothing are likely to aggravate it. Oppression of female Muslims is regrettably common, and should be resisted; but many women choose to wear the veil for cultural reasons, and others do so (as they do in Arab countries) as a sign of emancipation, or even as a fashion statement. France and Turkey have fiercely secular traditions that can be interpreted to justify restrictions on religious symbols; but such restrictions are best applied sparingly, and only in state offices, not in the streets. Similarly, decisions to bar the wearing of Muslim dress in courts or by teachers and pupils are surely better left to local discretion than imposed nationally.

When a ban only encourages

Moreover, there are powerful counter-arguments against bans on Muslim dress. For a start, it is illiberal to dictate to others what they can wear, especially when those others form a religious minority. A ban may foster, not deter, harassment or religiously motivated attacks. It would play into the hands of those who argue that Islam is a non-European religion, even though there are at least 15m Muslims in the European Union. And it can make it harder for mainly Christian countries to demand that mainly Muslim ones practise greater religious tolerance—a demand that the pope will, rightly, be making again when he visits Turkey next week.

Above all is the risk that, far from discouraging the wearing of the veil, a ban may serve to encourage it. Today only a tiny handful of Dutch Muslims wear the full-length *burqa* or *niqab*. Like the rest of Europe, the Dutch have learnt at first hand about the growing danger from Islamic radicalism. Intolerant measures aimed at Muslims are likely only to foment it.

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About sponsorship

On France, Donald Rumsfeld, bank risks, Bangladesh, Italy and Spain, London property prices

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Vive la différence

SIR – I agreed with most of the analysis in your survey of France (October 28th). However, you gave only passing mention to (and overlooked the importance of) the Ecole Nationale d'Administration. The school, which was set up in order to supply France with top quality civil servants, has fostered an elite that jealously protects its privileges and very few people can get ahead today without its precious diploma. Although the *énarques* are undoubtedly very able people, France has a problem in that so many of its leaders come through the same system. The result is a *pensée unique* political condition that paralyses the country and shields it from a much-needed entrepreneurial spirit.

Claude Dufour
Nice, France

SIR – Your survey did not consider the impact of an absent independent French media. Most French newspapers and television channels are owned by corporations that count the state as their main, and sometimes only, client. This is an old habit (the first newspaper in France was supported by Cardinal Richelieu, the country's first prime minister) and may explain why French politicians do not need to tell the truth to voters: it is because no one else will.

Julien Méli
Boulogne, France

SIR – You misconstrued the system in France through which university professors, and senior lecturers for that matter, are recruited. National “juries”, composed of academics who have been elected by their peers plus some extra members nominated by the Ministry of Education, do indeed shortlist candidates for upper-echelon jobs in French academia. But these juries award a “qualification” allowing would-be candidates to apply for positions at the universities they are interested in. Once the candidates have been qualified they are shortlisted again by the host universities, which then elect whomever they wish. The national juries have no further say.

Richard Duda
Professor, applied linguistics
Nancy-Université
Nancy, France

SIR – It is disappointing to witness an increased blurring of the line between faith and nationality. You referred to a study that showed British Muslims identify more with their religion than their nationality by comparison with French Muslims. As well as wondering if one would ask Italians if they felt more Catholic than Italian, or Indians if they felt more Sikh than Indian, since when did faith become indicative of someone's nationality? Too many people today presume the two are intertwined, yet not all Arabs are Muslim, or Jews Israeli, or Americans Christian. Confusing religious identity with nationality can only lead to more misunderstanding. For instance, my origins are Egyptian and German, I was born in the United States and now live in The Netherlands. What, if any, is my faith?

Tarek El Heneidi
Amsterdam

In Mr Rumsfeld's defence

SIR – I am angered that Donald Rumsfeld has been made a scapegoat for the debacle in Iraq ("Gracious me", November 11th). By focusing on his errors (both real and imagined) we avoid the fact that America is floundering primarily because Americans lack the vision and resolve to succeed. Terrorism and instability flourish—and our allies waver—when our commitment to high ideals becomes supplanted by cowardice and the politics of blame. This present generation of Americans should put the same heart and ingenuity into the effort in Iraq as our forefathers did in previous wars (the Marshall Plan comes to mind). Yes, Mr Rumsfeld made mistakes—all wartime leaders do—but at least he stood unflinchingly behind a cause he believes in. To dump the blame on him and wash our own hands of culpability in the war would be a grave and foolish error.

Benjamin Littauer
Cambridge, Massachusetts

Taking a risk

SIR – You reported the efforts of Sheila Bair, the chairman of America's Federal Deposit Insurance Corporation, to export America's "leverage ratio" as a capital test that can be applied to banks in addition to the Basel risk-based capital requirements being implemented globally ("A battle over Basel 2", November 4th). By all accounts, banking supervisors elsewhere are ignoring Ms Bair's lead because they recognise the perversity of the leverage ratio, which simply measures bank capital as a percentage of total bank assets unadjusted for risk. Because the leverage ratio ignores risk it is an incentive to banks to sell low-risk assets while increasing their high-risk assets to bring their required capital, per Basel, in line with capital requirements under the leverage ratio. Basel 2, coupled with the leverage ratio, is forcing American banks to become even more efficient at shedding low-risk assets, making them riskier. That is not good for America's banking system. Hopefully, the rest of the world will continue to tell Ms Bair to buzz off, and perhaps then regulators in the United States will phase out the leverage ratio.

Bert Ely
Alexandria, Virginia

Bangladesh's constitution

SIR – Your reading of the constitutional conventions that led to Bangladesh's president, Iajuddin Ahmed, becoming the head of the country's interim government and the circumstances that led to his assumption of the office of chief adviser was wrong-headed ("Campaign of violence", November 4th). The reason he is now "commander-in-chief of the armed forces and his own adviser" is that under the constitution the president is the military's supreme commander and is allowed to assume the chief adviser's office, provided certain conditions exist. Since all the constitutional steps were rigorously followed and the necessary conditions were fulfilled, your innuendo about an "unconstitutional concentration of power" is absolutely preposterous.

Fazal Kamal
Bangladesh High Commission
London

Graft dodger

SIR – Charlemagne missed one important point when explaining why Spain is now overtaking Italy: the different levels of corruption (November 4th). This is reinforced by Transparency International's latest ranking, which puts Spain in 23rd position out of 163 countries and Italy 45th. While Spain scored 6.8 out of 10 (the nearer to 10 the cleaner the country), Italy scored 4.9 and was yet again outflanked by Botswana.

William Chislett
Elcano Royal Institute
Madrid

Unaffordable digs

SIR – I was relieved to learn that for $1 trillion you can buy almost all of London's residential property ("Who wants to be a trillionaire?", October 28th). I would normally associate that sum with the price of a cramped two-bedroom house on the edge of a relatively safe and leafy suburb served by a "stopping" service to Waterloo railway station. I admit I am exaggerating, but not by much.

Kristine Petrosyan
London

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NATO's future

Predictions of its death were premature

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AP

The transatlantic alliance has survived the end of the cold war. But as it battles the Taliban in Afghanistan, its problems are acute

IN THE mythologised history of NATO, the transatlantic military alliance has been so effective that it won the cold war without ever firing a shot. So it is one of history's ironies that NATO should now find itself waging its first ever ground combat operations in the very place where the Soviet armed forces finally came to grief: Afghanistan.

This is not NATO's first military operation. It fought in Kosovo in 1999, but that campaign was an air war. NATO's ground forces entered Kosovo unopposed, and most of those who died in the subsequent mission were victims of traffic accidents. By contrast, NATO soldiers in Afghanistan have been fighting and dying since they extended their presence to the south of the country this summer.

For some NATO members it has been the most intense fighting since the Korean war. This year 49 soldiers, 34 of them Canadians, have been killed in NATO operations, and a further 14 British servicemen died in a plane crash. A few thousand Afghans—including Taliban, government forces and civilians—are believed to have died in the conflict.

General David Richards, the British commander of NATO forces in Afghanistan, says the operations have been a military and political success, so far. They asserted NATO's readiness to fight; averted the danger of Kandahar city falling into the hands of the resurgent Taliban; and forced the insurgents to revert to hit-and-run attacks plus suicide or roadside bombings. America paid NATO the compliment of placing 11,000 of its soldiers under General Richards's command last month.

Although the fighting has abated for the moment, NATO knows it cannot defeat the Taliban militarily, not least because the insurgents find sanctuary across the border in Pakistan. Instead, General Richards says that the outside world must seize the opportunity to improve the lives of Afghans in the south during the winter months. If not, he gives warning, the next campaigning season could be worse. Indeed, NATO might by then have lost its last chance of preventing the Pashtun population in the south from throwing in its lot with the Taliban.

That the return of the Taliban would be dangerous, not only for Afghanistan but for the world, is

something that just about everybody can agree upon, from the most red-blooded American Republican to the softest pink European. So it seems rather strange that the leaders of the 26 NATO member countries are to meet in Riga on November 28th with so little sense of urgency. Instead of a crisis meeting, even a council of war, the gathering looks like being a low-key affair, more concerned with papering over doctrinal disputes than solving acute immediate problems.

The operation in Afghanistan has exposed many weaknesses. The brunt of the fighting has been borne by just a few countries: principally the Americans, Canadians, British and Dutch (and non-NATO Australians). Other governments have imposed “caveats” on their forces, refusing to let them move out of their comparatively safe areas in the north and west or to share their equipment, such as helicopters.

General Richards says he is one of the few commanders ever to be sent into a theatre of war without a proper reserve. NATO has pressed for months for an extra 2,200 troops, including a 1,000-strong mobile force with no caveats, able to support other troops where needed. At the height of the fighting in September, NATO's military chiefs asked informally whether it would be possible to send out NATO's “strategic reserve” battalion in France. The answer from Paris was *non*, on the ground that it should remain available for duty in the Balkans. On top of this there are problems with equipment. Helicopters able to fly “high and hot” (at high altitude, especially in summer) are in short supply. Some radios are incompatible, and units have had to swap communications gear to stay in touch.

Reuters

Michèle just says non

At NATO's headquarters in Brussels, and at its military nerve centre in Mons, also in Belgium, there are deepening worries that too many countries treat Afghanistan as a “discretionary” operation rather than one that is likely to determine the future of the alliance. One concern is that NATO members will come to see the trouble in Afghanistan in the same hopeless light as the American-British fiasco in Iraq, and try to pull out. Another is that an Afghan failure could unravel the alliance, even as it helped wreck the Soviet Union.

What is the alliance for?

The NATO alliance has been struggling to define its role since the demise of the Warsaw Pact. The latest version of an evolving new doctrine is contained in a five-page document called “Comprehensive Political Guidance” which will be published at Riga. Instead of a common Soviet enemy, the allies must confront common threats; and instead of defending their borders from invasion, they must go far beyond them. The document declares that terrorism and the spread of weapons of mass destruction are likely to be the “principal threats” to the alliance over the next ten to 15 years. Other dangers include the instability that follows failed or failing states, regional conflicts, the growing availability of conventional weapons and disruption in the flow of resources such as oil and gas.

The allies, says the doctrine, still need to be able to carry out all military tasks, from peacekeeping to full-scale war. Terrorism has gone global, and NATO too must be ready to respond to challenges “from wherever they may come”. It should be able to deal simultaneously with several crises, large and small, in far-flung and inhospitable places. In many ways, this codifies what NATO already does. Apart from its deployment in Kosovo and Afghanistan, it flies air patrols over the Baltic states and Slovenia, carries out anti-terrorist naval patrols in the Mediterranean, runs military headquarters in Macedonia and Bosnia, trains the Iraqi army and gives logistical support to African peacekeepers in Darfur.

When communism in Europe came to an end, the alliance busied itself with making the continent “whole, free and at peace”. This has been as much a political function as a military one. It absorbed many of the ex-communist states of eastern Europe, offering a club membership on the way to joining the European Union. But this eastward expansion has paused. For the first time since 1999, there will be no firm moves for bringing in new members at the Riga summit. Three countries—Albania, Croatia and Macedonia—are in the NATO antechamber known as the Membership Action Plan. America would also like Ukraine and Georgia to join. But Ukraine has rejected the idea, for the moment. And bringing in Georgia is problematic, at least while the problem of its secessionist regions is unresolved.

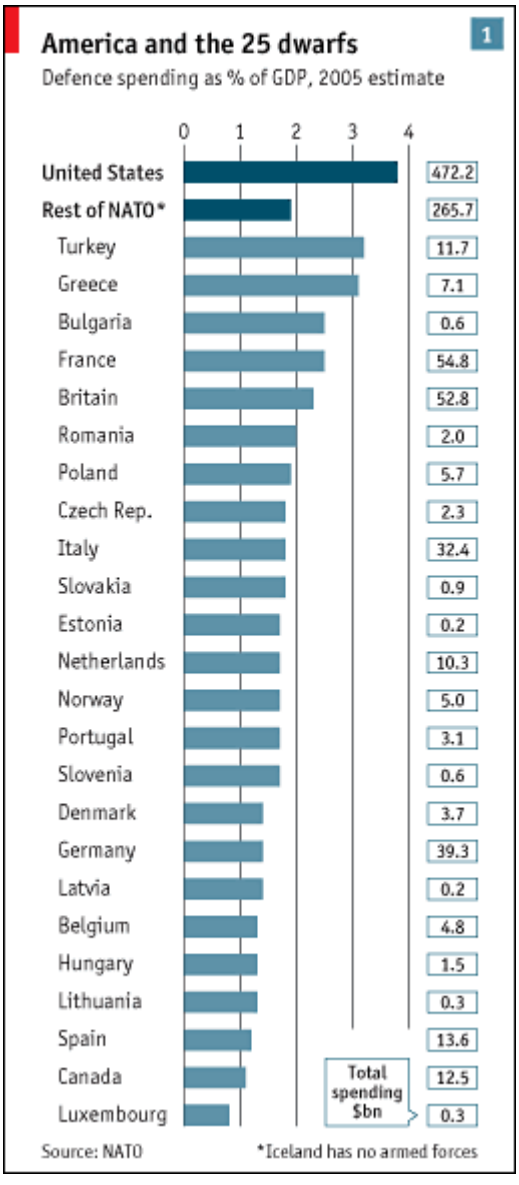
Apart from membership, the alliance has a variety of relationships with dozens of countries: special joint councils with Russia and Ukraine, and a series of “partnerships” and “dialogues” with a broad fringe of

countries stretching from Morocco to Central Asia. These days, NATO looks ever more like a kind of United Nations in military uniform.

The alliance's military operations in the Balkans in the 1990s established that it could pursue “out of area” operations, but also exposed how difficult it was for many of the European allies to do so. Much of the precision bombing in the Kosovo war, for instance, was carried out by America and a handful of allies. Since then, America has constantly called on European armies to modernise themselves, but progress has been slow.

The European allies collectively have economies comparable to that of the United States, and larger populations and armies. But they spend only about half as much on defence. America, partly because of its global interests, devotes 3.8% of GDP to defence, compared with an average of 1.9% for the European allies (see chart). Moreover, the Europeans tend to spend their meagre resources inefficiently, generally devoting the lion's share to salaries rather than equipment, and frittering resources on countless national projects. A study by the European Parliament bemoans the fact that there are four different kinds of European battle tank compared with one in America, and 16 models of armoured fighting vehicle in Europe compared with three in America. America plans in theory to be able to fight two wars in distant places; the Europeans would find it hard to fight one small war close to home without American help.

The need for modernisation has been starkly shown up by the operations in Afghanistan. The lack of airlift, for instance, has made it difficult for some countries to move their men and equipment. Europe's armed forces have medium-sized cargo aircraft for “tactical airlift” but are desperately short of the large aircraft needed for “strategic airlift” over long distances. Increasingly, governments are pooling their money, either to rent large aircraft from Russian and Ukrainian firms, to buy American planes or to make their own.



Trying to redress the disparity between America and the rest, NATO has drawn up lists of “capabilities” that countries must acquire. A more important development, strongly supported by America, is the formation of a 20,000-strong deployable standing army, known as the NATO Response Force (NRF), with land, air and sea components. This is supposed to begin deploying in troublespots around the world at five days' notice, making a “forced entry” if necessary and sustaining itself for up to two months before handing over to follow-on troops. Elements of the NRF have been used for humanitarian relief, but the force still has too many gaps for it to be declared fully operational at the Riga summit.

General James Jones, an American and NATO's most senior commander, says the tradition that each national contingent should pay its own way (a policy known as “costs lie where they fall”) has been a huge disincentive for many countries. He wants more of the expenses to be paid jointly by all the allies. If not, he says, many countries will hold back for fear that they will bear the cost of an expensive operation if the NRF happens to be activated on their watch.

Rather than spend money on making their armies more able to operate overseas, some Europeans have turned instead to the internal business of creating a defence arm for the EU, known as the European Security and Defence Policy. Even as NATO builds up the NRF, the EU is also building its own rapid response forces.

The EU's original aim of creating a 60,000-strong force, able to deploy at 60 days' notice for tasks ranging from disaster relief to crisis management, has been all but abandoned. Instead, the union is now creating 13 smaller and more flexible formations of 1,500 men, known as battlegroups, which are meant to deploy in troublespots within ten days. But many defence experts doubt whether European countries have the resources for the EU, the NRF and other demanding operations such as the UN mission in Lebanon.

Along with the development of an autonomous EU military staff and a separate EU “cell” within NATO's operational headquarters, critics accuse the EU of creating a wasteful rival army that will duplicate NATO's functions and break up the transatlantic alliance. Advocates of the policy say that Europe needs its own forces to encourage investment in defence and to take part in missions, such as peacekeeping in Africa, in which the United States does not want to become involved.

On the ground, the EU and NATO have co-operated relatively well. NATO has handed over its stabilisation missions in Bosnia and Macedonia to the EU. But in Darfur, the two organisations have competed to provide support for African peacekeepers. And in Brussels, headquarters to both organisations, the two groups have little contact at the political level—not least because of the conflict between Cyprus (a member of the EU) and Turkey (a member of NATO). With 19 members in common (soon to be 21 when Bulgaria and Romania join the EU), the two bodies are like Siamese twins awkwardly joined together. They share many organs—soldiers, equipment and military planners—but their separate heads do not get on.

After the attacks of September 11th 2001, it was America's turn to go its own way. In a show of solidarity, NATO invoked Article 5 of its treaty which asserts that an attack on one ally is an attack on all. The United States, however, preferred to act alone, picking allied units in “coalitions of the willing” to go to war in Afghanistan. The invasion of Iraq in 2003, led by America and Britain but opposed by France and Germany, pulled the alliance farther apart.

America's disdain for multilateral institutions appeared to be vindicated by the speed with which the Taliban and Saddam Hussein were toppled from power. But as the “war on terror” proceeded to go badly, particularly in Iraq, the Bush administration had to rediscover the value of having friends. European countries also sought reconciliation. Though NATO as a whole declined to send troops to Iraq (apart from a small training mission), it agreed in August 2003 to take over the International Security Assistance Force (ISAF) in Afghanistan and extend its remit beyond Kabul. The Afghan operation was presented as a stabilisation mission, much like the ones NATO ran after the wars in the Balkans; in some parts of the country it now looks more like the counter-insurgency operation that America is struggling with in Iraq.

Please ask the general

Though there is nothing new in the idea that stabilisation missions should involve police reform and economic development, the question of who should co-ordinate such actions has become contentious within the alliance. France says NATO should not extend its remit to civilian matters and duplicate UN functions. The French defence minister, Michèle Alliot-Marie, says this would cause NATO to “lose both its soul and effectiveness”. Many NATO officials retort that it is French obstructionism that is soul-destroying.

On the ground, however, NATO is taking the initiative. It has been instrumental in the creation of the Policy Action Group (PAG), a body bringing together Afghan ministers, NATO officers, UN officials and diplomats to co-ordinate intelligence, security, communications and economic development. It is chaired by Afghanistan's president, Hamid Karzai, with General Richards sitting beside him. Indeed, some quip that PAG really stands for “Please Ask the General”.

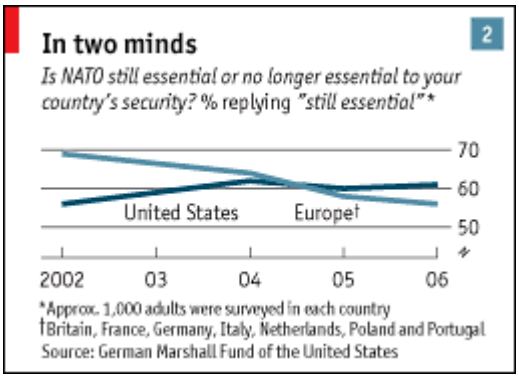
The Afghan operation, where 11 non-NATO countries have joined ISAF, has raised another difficult issue: whether Western countries outside the alliance, such as Japan, Australia and New Zealand, should be accorded a special relationship. Ivo Daalder, senior fellow at the Brookings Institution in Washington, DC, says NATO should turn itself into a global club of democracies. “Since the challenges NATO faces are global, its membership should be as well,” he says.

America has proposed something less: a kind of associate membership that would give kindred governments an early role in planning operations and better access to NATO training. But again France has resisted. Ms Alliot-Marie maintains that NATO should remain a Euro-Atlantic partnership rather than a “vague ensemble” that would “send a bad political message” to the rest of the world.

Pax Americana

The final outcome of the Riga summit may well depend on the mood of the two old antagonists, George Bush and Jacques Chirac, both of them now politically weakened and in the final phase of their

presidencies. The alliance is also being undermined by a change of public perception. A transatlantic opinion poll released by the German Marshall Fund of the United States shows that Europeans now have more misgivings (see chart).



And yet the poll also indicates that Americans and Europeans share broadly similar views of the dangers facing them: terrorism, Islamist radicalism and a nuclear Iran. The difference is over the means of dealing with them. Americans tend to favour confronting foes, whereas Europeans may want to engage them; the former advocate leadership, the latter consensus; in military matters Americans emphasise counter-terrorism and counter-insurgency, Europeans are more comfortable with peacekeeping and stabilisation.

Andrew Krepinevich, director of the Centre for Strategic and Budgetary Assessments, a defence think-tank based in Washington, DC, says that Europe and America have reversed historical roles. “A hundred years ago America was like Europe today,” he argues. Europeans preserved the balance of power, and the British fleet protected trade, while America criticised military adventures, such as the Boer war, as immoral. “America got a free ride on the Pax Britannica. Now it is the Europeans who are getting a free ride on the Pax Americana,” he says.

Despite many predictions of its imminent death, NATO soldiers on. Other organisations can offer much but they cannot match NATO's military power. This is why so many countries still want to join the alliance: it offers an insurance policy in uncertain times, with its promise of protection by the world's superpower.

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Populism

Fanfare for the common man

Nov 23rd 2006 | WASHINGTON, DC
From The Economist print edition

Getty Images

Is economic populism on the rise in the Democratic Party?

AS THE embers of this month's mid-term elections are raked over, a new conventional wisdom is emerging in Washington, DC. The outcome was not just about Iraq, corruption and voters' frustration with George Bush. It also marked the return of a phenomenon that has long hovered offstage in American politics: economic populism.

Frustrated by stagnant wages and rising health costs and fearful that their jobs will be sent to China, anxious voters, particularly in the industrial heartland, sent a new brand of Democrat to Congress: one who may believe in God and guns but who is wary of big business and even more dubious about free trade. The rise of these “Lou Dobbs Democrats” (a reference to a globophobic blowhard on CNN) could spell significant changes in American economic policy.

The new populists are certainly noisy. In an article entitled “Class Struggle” in the *Wall Street Journal*, Jim Webb, the incoming Democratic senator from Virginia, recently railed against “incestuous corporate boards” and the “hubris” of America's elites. Congress has wobbled on trade even before the newcomers actually arrive in January. A supposedly uncontroversial bill to approve permanent normal trading relations with Vietnam failed to gain enough votes for passage before Mr Bush's trip to Hanoi last week. And even the Democratic Party's centrist presidential hopefuls are joining the fray. Barack Obama, for instance, formally jumped on the Wal-Mart-bashing bandwagon last week (see article).

So is America headed for a bout of protectionist class warfare? History might suggest not. After all, recent politicians have often flirted with populist themes of the sort William Jennings Bryan (pictured above) once promoted, from Ross Perot's rants against the “giant sucking sound” of jobs lost to Mexico in 1992 to John Kerry's attacks on “Benedict Arnold” firms in 2004, without much actually happening.

Yet this year seems different. Not only are the new Democratic lawmakers distinctly more protectionist than the politicians they replaced, but their trade-scepticism was important to voters. An analysis of voters in 50 competitive districts by Stanley Greenberg, a pollster, showed that Republicans' support of trade was one of the main factors that put off swing voters. Almost 70% of voters want the government to “protect jobs and ensure that trade is fair” rather than promote free trade.

Go beyond the protectionism, however, and Americans are less convinced by populist politics. In Mr Greenberg's polls voters preferred limited government and low taxes over a government that creates conditions “so that many can prosper, not just a few”. Douglas Schoen, another Democratic pollster, finds scant support for economic redistribution. Even amongst poorer Americans, large majorities prefer policies that boost economic growth to those that redistribute wealth.

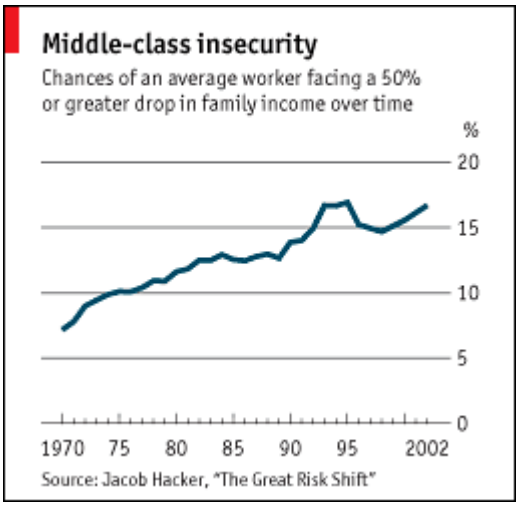
This combination of scepticism about trade without any great enthusiasm for class warfare is awkward for the party's internal politics. Left-wing Democrats have long bashed both trade and business, while the Clintonite centrists have embraced both. The contours of Democratic populism will depend on how both factions now react.

The spotlight is on Congress, where the party's left is likely to shout loudest, but achieve less. Oil and drug companies will be hauled in front of congressional committees. But laws will probably focus less on bashing businesses Democrats don't like than boosting ones they do. The talk may be about a windfall tax on oil companies, but the action will be on boosting subsidies for alternative fuels. The focus on tax policy, too, will be more on helping the middle class than punishing the wealthy. Though many Democrats want to roll back Mr Bush's tax cuts for the rich, the party's energy, at least initially, will be on fixing the alternative minimum tax.

On trade, the congressional leadership is less rabid than many of the new arrivals. Charles Rangel, the top trade man in the House, supported the Vietnam deal. He also wants to extend a package of expiring trade laws, including a textile provision that helps Haiti and other preferences for the poorest countries. He may get those done. But the new protectionists, and their union paymasters, will stymie much else. Free-trade agreements with Colombia and Peru (see article) will go nowhere unless Mr Bush agrees to renegotiate their labour and environmental components.

In the short term America's populist mood may bring little more than a stalemate on trade. Look ahead, however, and the risks multiply. For one thing, the economy is slowing. The White House this week reduced its growth forecast for 2007 to 2.9%, and that may prove optimistic. The jostling for the Democratic presidential nomination could well coincide with sluggish growth, increasing the appeal both of business-bashing and protectionism.

There are plenty of ideas to counter this, mostly clustered around assuaging American workers' financial insecurity. Jacob Hacker, a political scientist at Yale University, argues that Americans' incomes have grown more volatile (see chart) while the country's social contract has frayed, particularly as firms retreat from providing pension and health benefits.



Virtually every centrist Democratic policy-wonk now brandishes ideas about how to rebuild America's social contract as a prerequisite for shoring up support for globalisation. One goal is more protection against sudden income loss, whether by revamping the system of unemployment benefits or introducing broader wage insurance—in effect a government subsidy for those who are forced into lower-paying jobs. A second pillar focuses on making health insurance more portable as well expanding the number of people covered. Democratic wonks differ in the ambition of their ideas, but they all think their party needs to offer an alternative to Mr Bush's consumer-driven model of health care in 2008. Another set of proposals focuses on ways to encourage people to provide for their old age. Around half of Americans in their late 50s have virtually no retirement savings.

Many of these centrist ideas have promise even if some, such as wage insurance, sound better in theory than in practice. But this agenda, however ill formed, is clearly preferable to protectionism and Wal-Mart bashing. The big uncertainty for the Democratic Party is whether the centrist platform can be built in time, and whether the presidential candidates have the sense to stand on it.

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Wal-Mart

From both sides now

Nov 23rd 2006 | WASHINGTON, DC
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The store everyone, except shoppers, loves to hate

WHAT do Barack Obama and the Rev Flip Benham have in common? One is a Democratic senator from Illinois, possible presidential candidate and political rock-star. The other is the head of “Operation Save America”, an extreme conservative anti-abortion group. Though they come from opposite sides of America's political spectrum, both have recently been doing the same thing: attacking Wal-Mart.

America's biggest retailer has become everybody's favourite whipping boy. The left decries the firm's stingy pay and health benefits. Mr Obama last week declared that the “battle” to force the firm to examine its policies towards its workers was “absolutely vital”. The Christian right is appalled at Wal-Mart's godless depravity, in particular its decision to sign up with the National Gay and Lesbian Chamber of Commerce in August and (horrors) to stock the totally legal morning-after pill.

To protest against this “radical homosexual agenda” the American Family Association, one of the leading Christian groups, called for a boycott of Wal-Mart on the day after Thanksgiving, always one of the busiest shopping days of the year. To avert that threat, Wal-Mart issued a weasely statement on November 21st that, although it had a “strong commitment to diversity”, it would no longer weigh in on “controversial issues” unless they directly affected its ability to serve its customers. That was enough for the AFA to call off its protest, though Mr Benham still promised a “Gospel Information Explosion” outside hundreds of Wal-Mart stores.

The left's assault is more sophisticated, well-funded and dangerous. For more than a year two union-backed groups,WakeUpWalMart.com and Wal-Mart Watch, have run a campaign against the Bentonville giant. Democrats are under huge pressure to jump on board. Mr Obama is the latest catch. To fight back, Wal-Mart has hired its own strategists, backed its own advocacy group (Working Families For Wal-Mart) and increased its lobbying at this year's mid-terms. For good or ill, the home of everyday low prices has become America's biggest political football.

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The Democrats

Honeymoon over

Nov 23rd 2006 | WASHINGTON, DC
From The Economist print edition

Tribulations of the majority-in-waiting

THE gap between winning an election and taking power is an awkward one. All eyes are on the Democrats, but they cannot yet do much. Nancy Pelosi, the speaker-elect, has picked a nice new office, but she and her cohorts cannot start passing laws until January. The one thing they have plenty of time for is arguing with each other, and Americans now pay far more attention to what they say.

On November 19th, for example, Charles Rangel, a Democratic congressman who takes a moderate position on many issues, said he wanted to bring back the draft. He has been saying this for years, but now he is on the cusp of power (as head of the House Ways and Means Committee, which deals with taxes and trade), people take him seriously. He argues that an all-volunteer army is unfair because the great majority of those who bear arms are from poorer communities. He opposes the Iraq war, and believes that politicians would be less likely to start wars if their own children might be drafted.

His words damaged the Democrats, because many young people fear the draft, and because of what his argument reveals about the Democratic mindset. His suggestion that recruits tend to come from poor areas, though widely believed, is debatable. A study by the Heritage Foundation, a conservative think-tank, found that the average recruit comes from an area slightly richer than the national norm. And why is it fairer to force unwilling people into uniform than to rely on volunteers? Ms Pelosi quickly squelched the proposal, but the memory lingers.

Changing the subject, Democratic leaders this week seemed to be dragging out their proposed reforms of congressional ethics. Rather than offering one big reform package, Rahm Emanuel, the incoming chairman of the House Democratic Caucus, told the *Washington Post* that the party might hold several votes—one on banning gifts from lobbyists, one on banning junkets, and so on, forcing Republicans to take a position on each.

The Democrats' ethical crusade did manage to avoid an early stumble last week when the party chose Steny Hoyer to be House majority leader—the number two job after speaker—rather than John Murtha, a veteran dealmaker once filmed discussing bribes with an undercover agent. But Ms Pelosi's support for Mr Murtha cast doubt both on her judgment and her ability to sway her party.

The most positive noises out of Washington this week concerned the possibility of reforming Social Security. America's public pension scheme is shuffling towards insolvency as the population ages. George Bush attempted a tentative reform last year, but got nowhere. Now, Hank Paulson, the treasury secretary, is schmoozing Democrats to see if they might co-operate. The gossip is that everything is up for discussion, even Mr Bush's proposal to allow workers to transfer some of their Social Security taxes into private accounts, which Democrats oppose. Any plausible fix will involve pain—higher taxes, a cut in future benefits or both. Republicans and Democrats must tackle it together, sharing both the credit and the blame. Is Ms Pelosi ready for that?

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Shrimp farms on the Gulf

Maybe next year

Nov 23rd 2006 | BILOXI, MISSISSIPPI
From The Economist print edition

Along the coast, the recovery from Hurricane Katrina is painfully slow

AP

Katrina's rage, August 2005

BUSINESS looks tough for shrimpers at the Pass Christian harbour. The only boat around belongs to Captain Ziggie who, along with his two crewmen, sweats from heaving ice chests onto the deck. This will be the first of three trips this week but he doubts he'll profit much. “Tourists hardly come here now and locals are gone or flat broke. What can you do?” he shrugs, as the boat pulls out to sea.

Such grumbles are common in Mississippi, America's third-largest shrimp producer after Louisiana and Texas. The dockside value of Mississippi shrimps was $500m the year before Katrina, according to researchers from Mississippi State University, making shrimping the region's biggest commercial fishery ahead of blue crabs and oysters. This season things are down, by how much exactly it is hard to tell. But experts do know that the state sold 673 commercial shrimp licences to local fishermen the year before Katrina compared with 334 this year. And out of the 49 shrimp and fish processing plants Mississippi shrimpers traditionally sell to, only a handful have reopened since the storm.

Mike Brainard, director of the shrimp programme at the Mississippi Department of Marine Resources, worries about what will become of the industry. “Shrimpers are just slipping away,” he says. For years shrimpers have struggled with high diesel prices and a wave of imported shrimp that has flooded the market. Many managed a living only by selling to processors, who sold the shrimp in bulk to supermarkets and restaurants. With so many processors closed, shrimpers must sell to tourists and locals, but in Biloxi people remain scarce.

Along the Mississippi Gulf coastline, antebellum southern homes remain ripped from their foundations. Casinos, which once catered to high-spending (and seafood-consuming) tourists, lie tossed literally across roads. The Mississippi Hospitality & Restaurant Association reports that the coastline lost 257 eateries in the hurricane and many of those that survived are still struggling to get back on their feet. Only a few local stores have reopened, and the ones that have tend to charge a lot making it expensive to purchase ice, essential for fishing trips.

Shrimpers admit that by the time they have paid for fuel, ice and labour, their actual returns are minimal. Many have also lost their homes. Everyone in Biloxi struggles, but shrimpers, who are usually blue-collar working folk, are particularly hard hit, Mr Brainard says. Shrimpers here, he reckons, just can't get their lives back.

Some help is on its way. Back in August a federal disaster-relief grant awarded $128m for the Gulf of Mexico coast. This was for Florida, Alabama, Louisiana, Texas and Mississippi. It is not a lot for such a big region, locals agree, but it is a start. Because some of the federal money goes towards gathering information on the fishing harvest, marine departments can commission shrimpers to help gather data on precisely where the shrimp are best caught now, after the disturbances wrought by Katrina. This improves the catches and provides an added source of income, at least for a while.

In nearby Mobile, Alabama, other fish processors are starting to reopen, and will hopefully be operational in time for next June's shrimping season. And regional trade groups are working hard to promote American shrimp against its imported rivals, which make up nearly 90% of the market. This year the Southern Shrimp Alliance continued its 2004 Wild American Shrimp campaign and got Wal-Mart and Wild Oats supermarkets onboard. Deborah Long, a spokesman for the alliance, says the campaigns work and that Americans, once informed, always opt for the freshness and taste of southern shrimp.

The community in Biloxi is tough and loyal and its sense of camaraderie is strong. Soon after Katrina, stories filtering out of Biloxi told of factories staying open for their competitors during the night and sharing their machinery. “Everyone rallied together to help keep the production going,” Ms Long says. And locals take great pride in their fishing heritage. In May local bishops bless each fishing boat out at sea. In Biloxi this year special blessings were given to absent boats and shrimpers.

But big obstacles remain. Although Mississippi received $38m of the $128m federal money, the legislation does not provide for the money to be spent on rebuilding harbours. This is unfortunate when the biggest problem is the decimation of the Gulf's infrastructure. Biloxi still offers few places for shrimping boats to dock, because of storm damage. Piers and pilings all need to be redone. Mr Ziggie is hopeful, but isn't sure he will be around next season. “Things will come back,” he says. “It is just going to take time.”

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Trans fats

No pain, some gain

Nov 23rd 2006 | NEW YORK
From The Economist print edition

New York's plan to ban certain fatty foods looks flawed

IS THERE a pain-free way to better health? Perhaps, if some enemies of trans fatty acids (TFAs), unhealthy fats which are often found in fried foods and baked goods, are to be believed. New York City's board of health is due to vote in early December on a proposal that would ban most artificial TFAs in restaurants, which would make it the first big city in America to impose such a prohibition. If it goes ahead, argues Michael Jacobson of the Centre for Science in the Public Interest, a health advocacy group, then “New Yorkers will enjoy improved health without needing to make any effort on their own.”

Trans fats are the latest target of health activists in rich countries today. Denmark has banned them, as has the hamlet of Tiburon, California. And now, Chicago, Cambridge and other American cities and towns are considering action, and watching New York carefully.

The reason for this trend is path-breaking research done by Harvard University's Walter Willett, which suggests that TFAs (which are mostly found in artificially-produced substances such as margarine and partially-hydrogenated cooking oils) increase insulin resistance and heart disease. Dr Willett reckons they lead to perhaps 50,000 premature deaths each year. The federal Food and Drug Administration, however, has not yet been persuaded by Dr Willett's research to impose a federal ban, so New York's officials are forging ahead on their own.

New York's proposal pleases activists, but is it sensible public policy? One potential snag is unintended consequences. The American Heart Association (hardly a yes-man for the food industry) notes that the phase-out may be too speedy: “If appropriate substitutes are not widely available in the food supply-chain, restaurants may substitute saturated fats, which are also strongly associated with the development of heart disease.” The New York State Restaurant Association (NYSRA) adds that TFAs are common now in part because health officials had previously urged everyone to cut down on saturated fats. Some food activists blame TFAs for other diseases as well, but the evidence is less strong.

The city's approach is also somewhat arbitrary. Only artificial TFAs are banned, not those naturally found at low levels in milk or cheese; and packaged foods and home-cooked meals are completely exempt. Besides, because this is a municipal rather than a federal ordinance, it is bound to be leaky. New Yorkers craving an authentically unhealthy Dunkin' Donut or KFC biscuit can just cross the river to wild and woolly New Jersey.

Still, growing public awareness of the issue was already prompting both the federal government and the marketplace—both far better positioned to tackle the problem than one city's health board—to respond. Senator Tom Harkin, a Democrat and the incoming head of the agriculture committee, has already made noises about federal curbs on TFAs. Even purveyors of greasy fast food, including Wendy's, KFC and McDonald's, now vow to phase them out voluntarily.

Perhaps the draconian approach to TFAs is not surprising, given New York's recent form. Smoking is banned in public places, as is using mobile phones when driving. But those vices involve clear externalities, like second-hand smoke and car crashes, that harm other people; gluttony does not. Charles Hunt of the NYSRA puts it this way: “Anything in excess is bad for you. What's next—bacon, ice cream?”

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O.J. Simpson's hypothetical memoirs

Don't look now

Nov 23rd 2006 | WASHINGTON, DC
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A hypothetical look at why Rupert Murdoch binned them

IT IS hard to know what offended people more. The prospect of O.J. Simpson profiting from his notoriety? Or his publisher's claim that she was hawking his hypothetical memoir, “If I Did It”, for “closure, not money”? Judith Regan, previously known for midwifing such harmless titles as “How to Make Love Like a Porn Star”, said she wanted to make Mr Simpson “confess” to stabbing his ex-wife to death because she, too, claims to have once been a victim of domestic abuse.

Ms Regan's publishing firm is part of Rupert Murdoch's media empire. So is Fox, the American television network that was primed to promote the book with a two-part interview with Mr Simpson. On November 20th, however, Mr Murdoch said he would cancel both the book and the broadcasts. Doubtless, both would have attracted enormous audiences. But advertisers shunned the TV show, bookshops hesitated to stock the book, pundits (including those working for Mr Murdoch) sputtered with outrage and tens of thousands of Americans signed an online petition, to be found at www.dontpayoj.com, demanding that the whole project be scrapped.

For those who have been living in North Korea since the early 1990s, Mr Simpson, a former American football star, was acquitted of murdering his ex-wife and her friend at a criminal trial in 1995, but then found liable in a civil case. It is unclear whether Mr Simpson will make any money from his book, which is to be pulped. Mr Murdoch, meanwhile, will attract little censure for silencing Mr Simpson, but plenty for allowing his memoir to be commissioned in the first place.

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Public transport in Los Angeles

Pipe dreams

Nov 23rd 2006 | LOS ANGELES
From The Economist print edition

How a city came to accept the subway

“NOBODY walks in LA”, sang Missing Persons, a local band, in the early 1980s. By and large Angelenos still don't walk. But, these days, they occasionally do something other than drive. In the past 15 years the city has gradually built a skeletal subway and light-rail system. Thanks to some creative local politicking, it can now begin to put flesh on the bones.

Los Angeles' dependence on the internal-combustion engine is often blamed on its sprawling nature. That is misleading. Although the city may lack a central core to rival Manhattan or many European towns, it packs a lot of bungalows and two-storey apartment blocks into each square mile. Whereas other cities gradually give way to cul-de-sacs and extravagant lawns, Los Angeles, hemmed in by water and mountains, stays fairly dense almost to its edges. Indeed, according to the Census Bureau, the 12m-strong metropolis is the most densely populated urban area in America.

This unusual pattern of “dense sprawl” makes it both hard to manage without a public-transport system and hard to build one, says Brian Taylor, who studies transport policy at the University of California. Los Angeles is too densely populated for buses to flow freely. Yet it is too spread out to justify a costly subway system.

For a time, in the 1980s and 1990s, urban ambition trumped fiscal prudence. The city built furiously, creating one subway and two light-rail lines by 1995. But cost overruns and a tunnel collapse strained local patience. In 1998 voters approved a ballot measure barring the use of sales taxes for tunnelling. Congress had already banned excavations in the heavily populated Wilshire corridor, which runs through Beverly Hills, on the ground that it might ignite pockets of methane.

The result is a half-finished system that stops short of one of the city's main commercial districts. It is the equivalent of a New York subway system that does not stop in midtown, or a London underground that bypasses the West End.

But the two politicians responsible for halting the subway have since shifted their stance. Henry Waxman, who pushed for the tunnelling ban, is steering a repeal through Congress. Zev Yaroslavsky, who sponsored the 1998 measure, now believes the attenuated Red Line ought to be extended along the Wilshire corridor.

One reason for the change of heart is that Los Angeles has learned to make other people pay for its pipe dreams. Proposition 1B, approved by California's voters on November 7th, allows the state to issue $20 billion in bonds to pay for transport projects that will almost certainly include new railways in Los Angeles—sticking the state's future taxpayers with the bill. Antonio Villaraigosa, the city's ambitious Democratic mayor, also hopes to get more federal money for subways. Given the changing of the political guard in Washington, DC, he should succeed.

The other change is that the city's gridlock has worsened. A commercial boom in the rail-free Westside, where office vacancy rates have fallen from 15% to 7% in the past two years, has gummed the roads. Mr Yaroslavsky tells his secretary not to schedule late-afternoon meetings in Santa Monica, on the western edge of the city, lest he be caught in the rush-hour exodus.

So far, the city has struggled to make trains work as well as the humble bus does. Although custom is rising on most lines, an impressively smooth light-rail line that connects Pasadena to downtown Los Angeles still carries just 17,000 passengers on the average weekday. An express bus that runs down Wilshire Boulevard carries more than 40,000.

But buses compete for road space with Angelenos' beloved cars, whereas trains do not. So long as they are paid for—and, perhaps, ridden—by other people, the city's residents seem willing to let the building continue.

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Stock-car racing

Time for a tune-up

Nov 23rd 2006 | HOMESTEAD, FLORIDA
From The Economist print edition

NASCAR's fortunes are starting to wane

A NASCAR race is a straightforward event. Racers get a stock, or mass-production, car, soup it up beyond recognition, and drive around a track several hundred times. Many people find this boring and pointless. But NASCAR (the National Association for Stock Car Auto Racing) is, after American football, the nation's second sport, with 75m fans. In 2001 Mark Warner, running for governor in Virginia, sponsored a car. His strategists say it was crucial to his success.

On November 19th 80,000 enthusiasts gathered in Homestead, Florida. That made the speedway twice as populous as the city itself. Vendors did a brisk trade in beer, burgers and ugly T-shirts. A lonely “international food” stand sold slices of pizza. A car salesman tried to make a new friend. “Do you chew?” he asked. (That is, do you stuff a wad of tobacco inside your lip and then dribble quietly into an empty can?)

The Ford 400 was the last race in the “Chase for the Nextel Cup”, awarded to the driver who accumulates the most points over the season. Jimmie Johnson, successful but not well loved, won as easily as everyone had predicted.

All in all, a good day at the races, but it marked the end of an off year for NASCAR. Less than half of the races in the Nextel Cup series sold out. Television ratings declined. Fans, and even some drivers, grumble that the races are too frequent and too long. There are 36 events in the Nextel Cup series. The season is barely over before it begins again.

Brian France, the chairman of NASCAR, admits that the sport is “in a little bit of a lull”. But he attributes this to poor support from the network channel NBC, which he says scaled back its promotion of the sport this year. Next year ESPN, a dedicated sports channel, will carry NASCAR events. Other changes are afoot. Juan Pablo Montoya, having left Formula One behind, will spend his first full season with NASCAR. Toyota will race alongside the Fords, Dodges and Chevrolets. NASCAR plans to introduce its “Car of Tomorrow”. Don't count out American sport's most remarkable recent success quite yet.

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Lexington

An American's home is still her castle

Nov 23rd 2006
From The Economist print edition

Last year's Supreme Court ruling weakening property rights may end up strengthening them

DENISE HOAGLAND likes to sit on her front porch, with her exuberant dog, and admire the Atlantic. The view is soothing when calm, awesome when stormy and makes the plot on which her modest home stands rather valuable. She does not want to move, but the local government has told her that she must. The city of Long Branch, New Jersey has labelled her neighbourhood blighted—which it plainly is not—to justify seizing it and transferring it to a developer who wants to erect luxury apartments there. That suits the authorities: swanky condos would yield more taxes. But the people whose houses are to be bulldozed are furious. “Hands off our homes” signs abound on the street where Mrs Hoagland lives. Another reads: “Mayor—Thou shalt not covet thy neighbour's land.”

Since property rights are one of the foundations on which America's immense prosperity is built, it seems odd to undermine them. The framers of the constitution understood this well. True, the fifth amendment allows the government to take private property, but only for public use and so long as just compensation is paid. Public use has long been understood to mean what it says: a road, a public school or the like. Few would dispute that the state needs a tool (known as the power of eminent domain, or outside America as compulsory purchase) to prevent a lone homeowner from blocking an interstate highway.

But in June last year the Supreme Court expanded the definition of public use. In the case of *Kelo v New London*, it ruled, by five votes to four, that the state may seize private property on behalf of private developers, so long as this serves some broadly defined public purpose, such as increasing the flow of taxes into public coffers. In other words, any local government may evict any citizen to make way for someone richer. The four dissenting justices knew this might be a tad controversial. “The spectre of condemnation hangs over all property,” fumed Sandra Day O'Connor. “Nothing is to prevent the state from replacing any Motel 6 with a Ritz-Carlton, any home with a shopping mall, or any farm with a factory.”

The ruling had two effects. First, it told local governments and their developer chums that working-class neighbourhoods were up for grabs. In the year after *Kelo*, the Institute for Justice, a group that defends property rights, counted 5,783 homes, businesses, churches and other properties condemned or threatened with eminent domain to the benefit of a private party. Dana Berliner, an attorney for the institute, says that as far as she knows, no farms have been slated to be turned into factories, but that

other than that, Justice O'Connor's prediction is holding up well.

But second, *Kelo* provoked a backlash. Most Americans are repelled by the idea that the state might take your house and give it to Donald Trump. (This is not rhetoric: New Jersey once tried, unsuccessfully, to seize someone's home because The Donald needed somewhere to park limousines outside one of his casinos.) Since the *Kelo* ruling, no fewer than 34 states have passed laws or constitutional amendments aimed at curbing the abuse of eminent domain. At the mid-term elections, voters in ten states approved measures curbing politicians' power to seize private property, all by wide margins. Only two ballot initiatives failed, in California and Idaho, and that because they clearly went too far. Re-worded, they could easily pass.

Public revulsion against such seizures is visceral and nearly uniform: polls find between 85% and 95% of Americans are opposed to them. Political affiliation makes no difference. Republicans hate to see property rights violated and individuals bullied by the state. Democrats hate to see the state's coercive power hired out to big corporations, and worry, correctly, that the chief victims of eminent domain abuse will be the working class and ethnic minorities.

Power to the people

The backlash may end up strengthening property rights. Before *Kelo*, few Americans had heard of eminent domain or knew that it was being abused. Local seizures generated no national headlines. Local victims rarely made common cause with similarly afflicted folk in neighbouring states. Since *Kelo*, however, every serious paper and news channel has tackled the issue. Few, if any, sympathise with the home-grabbers. And the property-rights movement has gone national. Susette Kelo, the homeowner from New London, Connecticut whose stiffing by the Supreme Court first brought eminent-domain abuse to a wide audience, was on Capitol Hill last week urging senators to back a federal law curbing the practice. The House of Representatives passed a bill last year by the convincing margin of 376-38, but it then got stuck in the Senate Judiciary Committee. The Senate is running out of time—if a reform does not pass before the end of the lame-duck session, Congress will have to start again from scratch next year.

For Mrs Hoagland, the outlook is not rosy. She and her neighbours face a stressful court battle to keep their homes. But the broader moral is a happy one. By and large, the checks and balances of American politics are working as they should. Just as the courts keep tabs on Congress and the executive, striking down unconstitutional laws and constantly reminding the president that he is subject to the rest, so too can Congress, the states and ultimately the people curb the excesses of the Supreme Court. *Kelo v New London* was a terrible decision. But most states have now neutered it, and more will doubtless follow. Three governors (all Democrats, as it happens) have vetoed laws curbing eminent-domain abuse. But Tom Vilsack in Iowa, a presidential hopeful, was overruled by a super-majority of state lawmakers, and Janet Napolitano in Arizona was overruled by voters. In the struggle between the people and the powerful, the powerful do not always win.

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Latin America and the United States

Snubs and opportunities

Nov 23rd 2006 | LIMA AND MIAMI
From The Economist print edition

The new United States Congress seems poised to strike a blow for Hugo Chávez by killing trade deals in Latin America

LATIN Americans dislike George Bush because of the war in Iraq and what they perceive, fairly or not, to be his high-handed neglect of their region. But Latin American governments have mixed feelings about the capture of both houses of Congress by the opposition Democrats in this month's mid-term election. On many matters, from immigration to Cuba, American policy might change in ways that are to their liking. The big exception is trade.

Nowhere is the change of political control on Capitol Hill viewed with more disquiet than in Peru and Colombia. Under a 1991 law aimed at stimulating alternatives to drug production, the two countries, together with Bolivia and Ecuador, enjoyed duty-free access to the American market for ten years for their “non-traditional” exports. This law, temporarily renewed in 2001, expires on December 31st.

Peru and the United States signed a permanent Free-Trade Agreement (FTA) earlier this year. It has since been ratified by Peru's Congress. Officials from the United States and Colombia signed a similar agreement on November 22nd. Peru's new president, Alan García, has swallowed earlier doubts about the FTA and is lobbying hard for the United States Congress to approve it before the end of the year. That was always unlikely.

Now both deals look dead on arrival. A group of senior Democrats this week called on Susan Schwab, the United States Trade Representative, to re-open negotiations with both countries and insert new clauses that would toughen labour and union rights. Mr Bush's “fast-track” authority, under which trade deals must be accepted or rejected in their entirety by the Congress, expires in June. New talks would be tantamount to killing the deals.

Peru's exports to the United States which benefited from the trade preferences totalled $2 billion last year, involving some 500,000 jobs according to the exporters' association. Colombia's preferential exports are worth a similar amount. The administration has sent to Congress a measure to extend the existing trade preferences for up to two years.

This is likely to be approved, and will be welcomed in Bolivia and Ecuador. But the governments in Peru and Colombia see it as a poor substitute. They worry that investment in businesses ranging from textiles and clothing in both countries, to asparagus and avocados in Peru and flowers in Colombia will switch to

Central America, the Dominican Republic, Chile or Mexico, which already have FTAs with the United States.

Hernando de Soto, an economist who is acting as Peru's chief lobbyist for the FTA, has pointed out that rejection of the agreements would send a negative message to Latin America as a whole. Hugo Chávez, Venezuela's anti-American president, has campaigned noisily against FTAs with the United States (although his country in effect has one, sending 1.5m barrels per day of oil tariff-free).

On the other hand, Peru and Colombia have bent over backwards to accommodate special interests in the United States. Peru recently agreed to lift a sanitary ban on certain cuts of American beef to satisfy Max Baucus, who will chair the Senate Finance Committee in the new Congress. To be snubbed regardless may encourage these countries to seek closer ties with Asia and China in particular.

Colombia's president, Álvaro Uribe, may face other difficulties with the new Congress. His government is battling left-wing guerrillas and drug-traffickers but faces criticism over its alleged links to right-wing paramilitaries. The Democrats are likely to be more critical of Colombia's failure to prevent horrors such as killings of trade-unionists.

According to Michael Shifter of the Inter-American Dialogue, a think-tank in Washington, DC, the Democrats are unlikely to halt the $600m or so of mainly military aid that Colombia gets each year since they will not want to be seen as soft on either drugs and terror ahead of the 2008 presidential campaign. Mr Shifter adds that the election has strengthened the State Department's role in dealing with Mr Chávez, reducing the scope for impromptu interventions from hardliners elsewhere in the administration.

Policy towards Cuba may change, especially if Fidel Castro, the country's communist president, were to die (see article). The Bush administration has hitherto fought off efforts by a growing bipartisan group in Congress to pass legislation to soften the trade embargo against Cuba. That will become harder. In particular, a measure approved in 2004 which restricted family visits and remittances to the island may be repealed. It has gone down poorly in Miami, where Cuban-American political leaders have long been the main promoters of the embargo.

The Democrats plan to hold hearings into a new report by the Government Accountability Office that criticised the poor management and lack of oversight of a programme to aid dissidents in Cuba. In one case, a Cuban exile group in Miami used taxpayers' money to send cashmere sweaters, chocolates and computer games to supposed dissidents.

The issue on which Latin Americans, and especially Mexicans, have highest hopes of change is immigration policy. Most Democrats opposed the plan to fence long stretches of the southern border approved by the outgoing Republican Congress. Like Mr Bush, they support a proposal, drafted in the Senate with bipartisan support, which would combine tighter border security with increased legal migration and steps to regularise the status of undocumented migrants. Mexico's president-elect, Felipe Calderón, visiting Washington, DC, earlier this month, said that the outcome of the election held out the possibility of “improvement” in bilateral ties. Several of his colleagues further south will not share that view.

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Cuba

Waiting for the man

Nov 23rd 2006 | HAVANA
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A state in suspended animation

FOR Cubans, the past four months have been a time of phoney transition. Fidel Castro, their president for the past 47 years, is no longer in charge, but neither has he departed. He has not been seen in the flesh since July 26th, shortly before he underwent surgery for “severe intestinal bleeding”. His condition is a well-guarded state secret.

More may be revealed on December 2nd. As well as a revolutionary anniversary, this is the date on which the government said it would hold postponed celebrations for Mr Castro's 80th birthday. There are plans for a march of several hundred thousand people and the biggest military parade for a decade.

But will the marchers be saluting Fidel Castro or his younger brother, Raúl, to whom he turned over power in July? American officials have said they believe that Fidel has (probably terminal) cancer. Cuba's government merely says that he is recovering well. But Felipe Pérez Roque, the foreign minister, recently refused to say whether Mr Castro would be well enough to take part on December 2nd. The latest glimpse of the president, who earlier this year was making weekly hours-long speeches around the country, was a video released on October 28th. It showed a pale, thin and shuffling old man, and came as a shock to many Cubans.

On the surface, little has changed in Cuba. The fleet of 1980s Mercedes cars which used to sweep Fidel Castro to his offices have been replaced by the brand new BMW limousines of his brother's entourage. A group of European businessmen who visited the island recently were taken to meet Ramiro Valdés, a veteran of the 1959 revolution, hardline former head of state security and recently appointed minister of communications.

Carlos Lage, the de facto prime minister who is seen by outsiders as a liberal, recently denounced privatisation as “undemocratic” and the source of many of the world's ills. Mr Pérez Roque has said that if Cuba's state-controlled economy has problems they will be addressed, but only at “the right moment”. Raúl Castro is widely believed to admire China's economic policies, but he has said nothing on the subject in public. Like everyone else in Havana, he appears to be waiting.

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Bolivia

Fear and mistrust

Nov 23rd 2006 | LA PAZ
From The Economist print edition

The opposition takes on Morales

EPA

Morales, double or bust

WHEN last month Evo Morales's socialist government reached an agreement in principle with multinational companies over the nationalisation of his country's gas industry, there was much talk that Bolivia's president was becoming more pragmatic. But now a trial of strength with opponents at home has reached what looks like a decisive moment. The elected governors of six of the country's nine departments announced on November 19th that they were “breaking relations” with the central government. The two main opposition parties then walked out of the Senate, leaving it inquorate.

Three issues have provoked the split. Two turn on the opposition's fears that Mr Morales intends to follow the practice of his friend, Venezuela's Hugo Chávez, of centralising power in his own hands. The six governors, who include those covering La Paz, Santa Cruz and Cochabamba, the three main cities, took exception to a bill that would allow the central government to scrutinise the governors' accounts and allow the Congress to sack them. Officials say this is needed because regional governments will have far more money because of the gas nationalisation.

The second issue is a Constituent Assembly elected in July. This is writing a new constitution that Mr Morales, who is of Andean Indian descent, hopes will “refound” Bolivia. The president's Movement to Socialism (MAS) party, which has 137 of the 255 assembly seats, argues that a simple majority is sufficient to approve individual clauses. The opposition insists a two-thirds vote is needed, which would give it blocking power.

After three months of argument, the MAS finally pushed through a simple-majority rule after the constitutional court refused to entertain the opposition's case. The new constitution must still be agreed by a final two-thirds majority in the assembly and then put to a referendum.

The government is also pushing ahead with a land-reform law. Officials say this will distribute “idle” land to the landless without, as opponents fear, affecting large estates that are productive.

Opposition supporters in Santa Cruz this week took to the streets in protest—a tactic used in La Paz by Mr Morales to topple two elected presidents between 2003 and 2005. Meanwhile, supporters of the president are marching to La Paz to support land reform.

Each side accuses the other of being undemocratic. The opposition risks losing such an early showdown with a president who was elected with 54% of the vote less than a year ago. But regional autonomy is a popular cause in much of the country. If he does indeed abandon pragmatism, Mr Morales may come to regret it.

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Fujian

Digging for victory

Nov 23rd 2006 | FUZHOU AND XIAMEN
From The Economist print edition

Imaginechina

A Chinese province woos Taiwan for the sake of its own economy

THE Chinese province of Fujian has been feeling a bit left out. While the Pearl River delta to the south and the Yangtze delta to the north have boomed, subtropical Fujian has prospered too, but not quite so impressively. Every time the central government picks a new area for development, Fujian is not in it. But in recent months, with some clever rebranding, the province has been on a roll. Salvation, it hopes, lies in Taiwan, just across a 125-160 kilometre-wide (78-100 mile) strait.

Fujian's new brand is visible on billboards and red banners adorning the streets of its two biggest cities, Fuzhou, the capital, and Xiamen, a southern port that was one of China's original (and now redundant) “special economic zones”. Fujian is no longer plain Fujian. It is the “Economic Zone on the West Coast of the Strait”. The title may not trip off the tongue, but it is laden with political import and, Fujian hopes, comes with a licence to spend a lot more government money.

Three years ago, Lu Zhangong, Fujian's then governor (now Communist Party chief as well), first unveiled the West Coast brand to the provincial legislature. So as not to make it sound too much like a selfish cry for attention for Fujian, parts of neighbouring provinces were also included. The central government approved. The West Coast idea implies the existence of a zone on the east side of the strait, ie, Taiwan. By posing as part of an economic region embracing Taiwan, Fujian played up to China's strategy of using economic integration to entice Taiwan into unification with the mainland.

A visit by President Hu Jintao to Fujian in January sealed the deal. In March development of the West Coast zone was stated as a national goal in China's new five-year plan. Such an endorsement was vital for Fujian. The central government is trying to put the brakes on investment in fixed assets as a way of preventing the economy from overheating. But Fujian can use its new clout to gain speedier approvals in Beijing for big projects. Had the new plan omitted the West Coast zone, Fujian would have found itself feeling even more left out, because it also endorsed the development of a rival region centred around the Bohai Gulf in northern China. Fujian officials worry that, despite the ancestral and linguistic ties many have with Fujian, Taiwanese investors in high-tech industries prefer the north and areas around Shanghai, such as Jiangsu, where skilled labour is more abundant.

In line with the central government's belt-tightening policy, Fujian's plan modestly calls for growth of “more than 9%” annually, compared with an average of 10.7% in the previous five years (Guangdong and Jiangsu recorded annual growth of around 13% from 2001 to 2005). But to make itself a new magnet for Taiwanese investment, Fujian has some big plans afoot. The length of Fujian's railway lines is to increase by more than 50% to 2,500km. Expressways will double to 2,450km. Cargo-handling capacity will expand by nearly 80% and passenger capacity at its five main airports by nearly 100%.

The province's ambitions depend, of course, on Taiwan. Fujian has been busily discussing its plans with members of opposition parties there, but not with the island's leadership, which is deeply suspicious of economic ties with the mainland. Without Taiwan's consent, Fujian's airport expansion projects might well be wasted. There are no scheduled direct flights between the island and China. Only a handful of chartered flights carry passengers across the strait each year. The first chartered cargo flight from Taiwan since 1949 landed in Shanghai only in July. Political hang-ups on both sides have blocked regular air links. Shipping links are little better.

But Fujian officials have their eye on Taiwan's presidential election in 2008, when the island's president, Chen Shui-bian, is constitutionally required to step down (assuming corruption scandals do not bring him down earlier). Ma Ying-jeou, Taipei's mayor and the leader of Taiwan's biggest opposition party, the Kuomintang, has faced corruption allegations himself. But China hopes that he—or someone like him—will be the next president. Mr Ma has said Taiwan and China should set up a “common market”.

Mr Chen's administration has heaped scorn on Fujian's ambitions. It has dismissed the West Coast strategy as a ploy to reduce Taiwan to the status of a partner of a Chinese province rather than a nation in its own right. But Fujian's officials are optimistic. At Xiamen's high-tech industrial development zone, Xiong Fujing says he expects 60% of investment in the zone over the next five years to come from Taiwan, compared with only two Taiwanese projects there up until last year. Mr Xiong says that, thanks to Fujian's drive, several big Taiwanese companies have recently agreed to invest in the zone. Late last year a Taiwanese company, Chunghwa Picture Tubes, became the biggest shareholder in one of China's leading flat-screen television-makers, Xoceco, based in Xiamen.

There are yet more grandiose plans in the air. At a symposium on the West Coast project, a Xiamen scholar proposed this week that Xiamen unite with the Taiwanese-held island of Kinmen, just a few kilometres away, to form a “special city”. This, he was quoted as saying by the Chinese press, could

become a huge trading hub with an airport like Hong Kong's. A nice idea, if only Taiwan would say yes.

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North Korea

Edging closer to the table

Nov 23rd 2006 | SEOUL
From The Economist print edition

Talks in prospect, but not an end to its nuclear ambitions

AMID the gloomy fallout from North Korea's explosion of a nuclear device last month, some glimmers of light are flickering. On November 20th George Bush's chief negotiator on North Korea, Christopher Hill, met his Chinese counterpart in Beijing. He reported that the six-country talks aimed at getting North Korea to dismantle its nuclear-weapons programmes might restart as soon as mid-December.

The talks, involving North Korea, America, South Korea, Japan, Russia and China, their host, began in 2003. North Korea abruptly broke them off more than a year ago, angry about accounts frozen under American pressure at a Macau bank. But in early November it agreed to come back to the table. With a fresh round now thought imminent, a cheerier mood among the participants is palpable.

AP

Another party Kim Jong Il missed

Quite what will sustain the optimism is less clear. In coaxing North Korea back, the Americans have shown some flexibility. Mr Hill, for example, has promised that the talks' agenda can include the frozen accounts, though the Macau authorities this week denied reports that some had already been unfrozen. He has also signalled, not for the first time, that the six-party meetings can provide cover for the bilateral talks with America that North Korea has always wanted.

On the sidelines of the summit meeting of the Asia-Pacific Economic Co-operation forum, held in Hanoi on November 18th-19th, Mr Bush hinted that America would still consider a peace treaty marking the formal end to the Korean war, long a North Korean desire. A new package of incentives would offer aid and membership of regional trade clubs. In short, America is reaffirming the commitments it made in September 2005, before North Korea flounced out of the talks. In turn, North Korea has dropped its insistence that international sanctions be lifted as a precondition to any new talks.

Even if the parties do meet as planned, the mood may not last. After all, the point of the talks is nuclear disarmament. America, Japan and even South Korea insist that a nuclear North Korea is unacceptable, and say they will not treat with it as if it were a nuclear power. North Korea, on the other hand, will feel that as a nation with a nuclear deterrent, however feeble, it deserves respect. On November 22nd a senior North Korean official was quoted as deriding the idea that his country might have conducted a nuclear test merely in order to abandon nuclear weapons.

A maestro of division, North Korea may also try to play off differences among the other countries. Those differences, however, are narrowing. South Korea last week supported a draft United Nations resolution condemning North Korea's shocking record on human rights, notably its gulag, executions and religious repression. The South—under President Roh Moo-hyun, a human-rights lawyer—had always resisted this, arguing that to antagonise the North was counter-productive.

A foreign-ministry official says that the nuclear test and international concern about North Korean human-rights abuses make such a position untenable. But in reaction to the South's policy shift, North Korea fumed that “the treacherous move by the South's authorities to side with hostile outside forces gone crazy over their anti-[North Korean] campaigns creates new major obstacles in the North-South relations”. This is tame stuff from a regime steeped in hysterical rhetoric. If the talks go wrong, expect something wilder.

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Nepal

The peace prize

Nov 23rd 2006 | DASHARATHPUR AND KATHMANDU
From The Economist print edition

After 13,000 deaths the war comes to an end, on paper

“WE DECLARE the end of the war that has been going on since 1996.” These words, in a peace agreement signed on November 21st by Nepal's prime minister and the Maoist rebel leader, Prachanda, sent the audience and the country as a whole into a collective round of applause. The next day, the *Kathmandu Post* demanded the Nobel peace prize for the two men.

For the moment goodwill and optimism have supplanted acrimony and betrayal. Yet implementation of the deal remains daunting. In particular Nepal's endemic political violence must be controlled before elections next year for an assembly to write a new constitution.

This week thousands of rebel guerrillas arrived at seven designated “cantonments” around the country as part of a disarmament process agreed on November 8th. According to the twin accords, their weapons are to be stored in locked armouries. Maoist leaders will keep the keys but a United Nations team will install monitoring equipment. An equal number of army personnel and weapons will be similarly confined.

These arrangements rely largely on trust, but Ian Martin, head of an embryonic UN monitoring team in Kathmandu, believes they can work. Maybe so, but when rebels reached the cantonment site at Dasharathpur in south-west Nepal this week there were no toilets, much less an armoury, and not a UN official in sight. The rebels propped their guns against trees as they set about clearing scrub and tidying their new home.

Mr Martin enjoys great personal prestige. But his office lacks a mandate or proper financing mechanism, and even when they are in place, it will take time to build the team up to operational strength. Ananta, deputy leader of the rebel army, fears that further delay could allow public confidence to seep away from the ceasefire.

However, the biggest problems with the ceasefire so far are all the rebels' own fault. This month they have staged a systematic recruitment drive, persuading and coercing thousands of schoolchildren into their army, in order to swell numbers in the camps. In other ways, too, cadres still act like thugs. The agreements call for the rebels to join an interim government on December 1st, but rule that out until their fighters have stopped misbehaving and are out of the way in UN-supervised camps. Until that happens, peace remains a truce.

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Japan's security

Hawks in a dovecote

Nov 23rd 2006 | TOKYO
From The Economist print edition

A debate over the meaning of constitutional pacifism, and whether to drop it

BALLISTIC and nuclear adventurism by Kim Jong Il this year has not fundamentally changed Japan's calculations about its safety—the North Korean threat, after all, has been around for a while. But it has lent urgency to old arguments for a more muscular security policy. Japan's new prime minister, Shinzo Abe, who desires a more " normal" (read "assertive") Japan, has, thanks to Mr Kim, a reason to revisit many of the taboos that constrain Japan's Self-Defence Forces—please do not call them the armed forces. Mr Abe favours rewriting the pacifist constitution that America imposed upon Japan after defeat in the second world war. However, he appears to dismiss musings by some in government about the country of Hiroshima developing its own nuclear weapons.

The pacifist part of Japan's constitution lies in its brief Article 9. It stipulates, first, that "the Japanese people forever renounce war as a sovereign right"; it does not allow the use or even threat of force to settle disputes. The second part says that "land, sea and air forces will never be maintained." In practice, thanks to constitutional interpretations by earlier governments, Japan maintains one of the world's most powerful and modern military forces. Yet its operations are still hobbled. Article 9 has long been interpreted as denying Japan the right to defend itself outside its own territory, or to come to the aid of others, notably America, its ally with 50,000 troops based in Japan.

The North Korean missile threat highlights the contradictions. If North Korea is seen to be readying an attack on its island neighbour, must Japan stand by and wait for the attack before responding? The idea that a pre-emptive strike might be legitimate was raised by Mr Abe himself last summer, when he was chief cabinet secretary, though Japan gives no sign of wishing to acquire the offensive means.

A less theoretical matter has to do with co-operation between Japan and America over ballistic-missile defence, the main counter to Mr Kim. Since North Korea fired a long-range missile over Japan in 1998, Japan and America have worked closely to develop systems that send interceptor missiles to destroy incoming warheads, and last week agreed to speed up their deployment. Japan had already ordered new Aegis guided-missile destroyers with sophisticated radars, and Patriot missile batteries on land. America has installed an early-warning radar in northern Honshu, Japan's main island, and is putting an advanced Patriot on its Kadena base in southern Okinawa, to serve until Japan's own missile defence is robust.

Yet the question, even then, is what Japan may do to help its ally, given Japanese strictures against collective self-defence. Though a North Korean long-range missile headed for continental America would probably not pass over Japan, one headed for Hawaii might. In practice, Americans want to know whether Japan would shoot down missiles overflying Japan: current constitutional interpretations seem to forbid it. Japanese policymakers worry that if Japan cannot come to America's help in a crisis, Congress might one day wonder why on earth Americans should be committing so much to defend Japan.

Possible North Korean proliferation of weapons of mass destruction also exposes the gap between Japan's desires and its self-imposed shackles. Japan is a charter member of the American-led Proliferation Security Initiative, which envisages intercepting suspicious cargoes, and has since Mr Kim's nuclear test trumpeted its eagerness to help. But its practical options are limited. It has said it will back up American patrols at sea, yet its navy may not come to Americans' aid if attacked.

Whatever the prime minister's wishes, a change to the constitution, which requires a two-thirds majority in both houses of parliament and a national referendum, is still a long way off. In the meantime, Mr Abe promises a close look at quite what the constitution forbids—a hint of reinterpretations to come.

This week the chief cabinet secretary, Yasuhisa Shiozaki, suggested that the government would

reconsider a 2003 ruling preventing missile defences from protecting another country. Separately, the head of the Japan Defence Agency, Fumio Kyuma, says he hopes a bill will be introduced into parliament next May that turns the agency into a full ministry, with cabinet status. The oddity of agency status, he says, “is not good enough if the country is attacked and we are called upon to defend it.” Taken together, steps such as these could take Japan a long way towards Mr Abe's goal of being “normal”.

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Kashmir

The invisible scars

Nov 23rd 2006 | DARDPORA AND SRINAGAR
From The Economist print edition

A war-borne epidemic of mental illness

EVERY day of the week, Kailasa staggers to the hospital in Dardpora, a village 120km (75 miles) north of Srinagar, capital of Indian-controlled Kashmir. She arrives with various complaints: headaches, insomnia, or pains in the stomach, legs or back. She started coming after her only son was killed four years ago. Like other young men from the village, he used to guide militants across the nearby mountains lying along the “Line of Control” dividing Indian- and Pakistani-held Kashmir.

Two reasons for sanity

Kailasa would not describe it so, but she is a victim of chronic post-traumatic stress disorder (PTSD), the debilitating anxiety afflicting many civilians and soldiers living through conflict. According to some estimates, four-fifths of the 5m people in the Kashmir valley have been directly affected by an insurgency against Indian rule that has simmered since 1989, bringing at least 40,000 deaths.

Médecins Sans Frontières (MSF), an aid group, has conducted a survey in two border districts on the impact of the conflict. The results are frightening. Of the 510 people interviewed, one in ten had lost immediate family members in the violence, and one in three had lost members of their extended families. One in six had been forcibly displaced and 13% had witnessed rape. Virtually all had endured one or more raids on their houses. Not surprisingly, fewer than half felt safe more than occasionally. Arshad Hussein, a local psychiatrist, talks of the “midnight-knock syndrome”. People feel so unsafe that they prefer staying in hospital to going home.

The MSF report concluded that one-third of the respondents were suffering from “psychological distress”. A similar proportion had contemplated suicide, though Islam, the main religion of the valley, condemns even suicidal thoughts.

There are few resources for people suffering mental illness. Many seek solace from faith healers or prayers at Sufi shrines. Others turn to drugs such as heroin, or over-the-counter medicines. In the last resort, they turn to the Psychiatric Diseases Hospital in Srinagar, the only mental-health institution in the valley. According to its head, Mushtaq Margoob, in the 1980s an average of 1,300 people a year used to seek help at its outpatient department. The number soared in the 1990s, and by 2005 had reached 68,000. And the patients who reach the hospital form only the tip of the iceberg. In the villages that have borne the brunt of the violence, sufferers do not have the time or money for the long trip into town.

Of the female patients, 50% were suffering from depression and PTSD, according to Dr Hussein, often because they had suddenly become the head of a household. One such widow, Mumtaz, in the village of

Palhalan, lost her husband two years ago. He was a Pakistan-trained militant in one of the valley's many armed factions. He was killed in front of her children by a paramilitary group of former militants organised by the Indian army. The pressure to feed her five young children seems to keep her sane.

For that reason her children have not yet ended up in one of the many orphanages that have mushroomed in the valley to cater for the tens of thousands of children who have lost parents. Dr Margoob worries about the mental health of the young. “An entire generation is growing up”, he says, “that does not live one day without fear.” And this will trouble Kashmiri society for generations to come, even if peace should prevail tomorrow.

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Tonga

Not so friendly

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Political ferment in the South Pacific reaches the kingdom

ONCE the “friendly isles”, the 170-island archipelago of Tonga is no longer so amicable. On November 16th pro-democracy protests in Nuku'alofa, the capital, descended into ugly rioting. Eight people were killed and some four-fifths of the commercial district destroyed. Chinese-owned businesses suffered especially badly. Violence abated by November 18th, after the arrival, at the government's request, of 150 troops and police from Australia and New Zealand.

Some of the rioting was simple hooliganism. But in May 2005 many Tongans had taken to the streets to demand democracy. The latest events were set in train by the death in September of the gargantuan, pith-helmet-wearing King Taufa'ahau Tupou IV. He did much to develop the tiny kingdom of around 110,000 people. But many Tongans resented the control exerted by the royal family and aristocracy over much of Tonga's economy.

The new king, George Tupou V, is more inclined to democratic reform than was his father. Fred Sevele, prime minister since earlier this year, is a “commoner”. The government has been considering increasing the number of directly elected members of Tonga's legislature to 21 out of 30 (from nine). But some in the capital are impatient at the pace of reform.

According to Jon Fraenkel, of the University of the South Pacific in Suva, Fiji, another factor in the unrest is Tonga's wealth gap. There is a surfeit of unemployed young men unable to find jobs in agriculture or the growing tourism industry.

Tensions exist in other parts of the Pacific, too. After an election in April, riots took place in the Solomon Islands, which also saw Chinese businesses hit and Australia send troops. Fiji, Tonga's neighbour, has endured three coups since 1987, and endless tension between the indigenous and Indian populations.

Such regional strife generally does not trouble the world too much. The Pacific's far-flung remoteness means the region is not a source of terrorists, for example. Nevertheless, Australia has taken an interest, with peacekeepers in Papua New Guinea, on whose Bougainville island violence flared again this week, as well as the Solomons and Tonga. Sometimes seen as heavy-handed, Australia now seems to want to adopt a softer touch. Perhaps for that reason, New Zealand is taking a leading role in their joint mission in Tonga.

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Congo

A wilderness that may become a state

Nov 23rd 2006 | KINSHASA
From The Economist print edition

EPA

Joseph Kabila has won an historic, if messy, election. Now for the difficult part

MACHINEGUN bullets zipped over the concrete walls of the Supreme Court building in Kinshasa on November 21st, as an angry crowd of flip-flop-shod streetboys and plainclothes soldiers bellowed for justice. In the chaos, the policemen and UN peacekeepers who should have been guarding the court ran away. The demonstrators then set part of the court on fire and ransacked the courtroom. The next day, Joseph Kabila, who last week had been declared the winner of the presidential election, furiously gave his main rival, a former rebel named Jean-Pierre Bemba, 48 hours to remove his 600-strong private army from the capital.

The court had been weighing a claim by Mr Bemba that the election had been rigged against him; his supporters were adding their voices outside. Once the court gets back to business again, it is expected to confirm Mr Kabila's victory, by 58% to Mr Bemba's 42% in the second-round run-off vote. If Mr Bemba still refuses to accept defeat, he has that private army to press his point—and he is popular in Kinshasa, where he won 70% of the vote. Yet, whatever Mr Bemba may be planning, it seems certain that, early next month, Mr Kabila will become the first properly elected president of Congo in more than 40 years.

That is an achievement, not least logistically. Congo is little more than a vastness of rainforest and savannah with a famous river snaking through it. Its infrastructure has rotted to nothing and so, in many places, has any sign of a state. To hold elections in such a wilderness has required massive support from the UN's costliest peacekeeping mission, with its fleet of more than 100 aircraft.

The polls were also testimony, despite some violent moments from those around both Mr Bemba and Mr Kabila, to uncommon restraint from Congo's leaders. One of the strongest former rebel groups, the Rally for Congolese Democracy (RCD), which controlled eastern Congo during the war, appears to have accepted an electoral humiliation. Outside powers, for once, have also been mostly helpful— even the neighbours, all of whom had a hand (and several an army) in a five-year regional and civil war that formally ended in 2003 and cost perhaps 4m lives.

Yet if the election is to make any serious contribution to resuscitating Congo—using the country's fabled mineral wealth—progress will be needed on every front. The UN is almost certain to continue to help. Its mission arrived late and has been as flawed as any multilateral creature: it failed to protect Congolese

civilians from slaughter and Congolese children from paedophiles in its ranks. But with 17,600 peacekeepers in a country of little interest to Western powers, the mission may one day be seen as the biggest achievement of Kofi Annan, the UN secretary-general, on his mother continent. Despite competition for the UN's attention, in Sudan, Lebanon and Timor-Leste for instance, its mandate in Congo is expected to be renewed on February 15th, and then for three years thereafter.

This is assuming that Mr Kabila, who took over from his assassinated father, Laurent, in 2001, wants the mandate to be renewed. The president has won plaudits abroad. He has, at least until now, taken good advice, especially in imposing macroeconomic stability in a country where printing money has traditionally been the state's answer to penury.

Remembering kleptocracy

But Mr Kabila's failure otherwise to advance the lot of most Congolese, among the poorest and sickliest people on the planet, has made him unpopular with many. The enormous and growing wealth of some of his advisers also riles a people who endured 32 years of Western-blessed kleptocracy under Mobutu Sese Seko. In Kinshasa, especially, many people express their frustration by calling him a Western stooge and a foreigner (his roots are in eastern Congo), both common ploys in Africa.

Mr Kabila, who lost to Mr Bemba in six out of 11 provinces, including almost all those he held during the war, is chastened. But, alas, he seems more concerned to dilute the medicine Congo should be taking, rather than to attack its malaise. Once returned to power, he has promised to reassert Congolese sovereignty, a line his father used to justify dispensing with conditional foreign-aid programmes.

A more pressing challenge for Mr Kabila, assuming war is averted in Kinshasa, is to accommodate Mr Bemba, who is now as legitimate an opposition leader as Mr Kabila is a president. Both men's supporters have formed huge coalitions, sponging up most of Congo's dozens of political parties. Mr Kabila could dominate the parliament, with around 300 representatives against Mr Bemba's 100. He would be unwise to do so. Unless Mr Bemba is at least granted positions on the parliamentary committees that oversee the government, his opposition will be meaningless—an intolerable position for an arrogant man who genuinely, though wrongly, thinks he won the election.

In fact, neither man should be too pleased with his performance at the polls. Most Congolese voted against whichever group controlled them during the war, hence the RCD's demise among easterners, whose votes were crucial in returning Mr Kabila to power. If the president is not, next time round, to be voted out by a disappointed population, he had better reward their faith. But this will be difficult.

The first problem is economic. Massive government revenues are alleged to have been plundered for election expenses by both sides. Strapped for cash, the government seems, once again, to be cranking up the currency presses: diplomats allege that in the past five months the central bank has counterfeited its own money, by duplicating fresh bills. The Congolese franc has lost 20% of its value against the dollar over that period.

Two more problems loom. Officially, the armies and militias of the many parties to the war have been integrated into a new 14-brigade army. But in many places, especially the most fragile, there has been little mixing. Were the war to restart, the former factions would quickly find their own fighters. Even where there has been more of a shake-up, there has been little retraining of the tens of thousands of soldiers, including many who started fighting as children, unpaid and untrained, and for whom rape and pillage were basic infantry skills.

Warlords in the provinces

In the north-eastern region of Ituri, a vast gold deposit covered by gentle green hills, murderous militiamen have become murderous soldiery. There they prey on peasant miners and increase the prospect of a return to the ethnic slaughter that claimed around 50,000 lives between 1999 and 2003.

A long, rattling drive to the south, in North Kivu province, is a warlord general, Laurent Nkunda, who shows little interest in ideas of state expansion. Formerly in the RCD, and before that in Rwanda's army, he claims to control 20,000 square miles (52,000 sq km) of wooded hills. As the protector of North Kivu's long-persecuted people, General Nkunda has a just cause. But then, so had many of the actors in

Congo's complicated war—and still the result was a slaughter. So long as Congo has no state to address pressing local complaints, its future is an open question.

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Lebanon

Who's the assassin?

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If it was Syria, it will have done itself no favours

SOMETHING sinister was bound to happen. Since the guns of last summer's brutal little war with Israel fell silent, the pitch of Lebanon's internal politics has ratcheted to ever shriller heights. Still, no one knew how the poisonous polarisation, pitting the pro-Western parliamentary majority that controls the cabinet against a panoply of critics, would play itself out. The assassination of Pierre Gemayel provided one blunt answer.

Mr Gemayel, minister of industry and scion of a famous Christian political dynasty, was gunned down on November 21st by assailants who rammed his car, then drilled it with bullets from silenced machineguns. Like all Lebanese politicians, Mr Gemayel, aged 34, had enemies. He was the fifth Gemayel to meet a violent death: his uncle Bashir, elected president of Lebanon in 1982, was struck down by a car bomb before taking office. Yet few saw the latest killing as personal.

It was the 16th violent assault in two years against opponents of Syria, the Baathist neighbour whose army and intelligence services enforced an end to Lebanon's 1975-90 civil war, but then lingered unloved and unwanted. Some of these incidents amounted to nothing more specific than pipe-bombs planted in Christian areas. Some missed their intended targets: two sitting cabinet ministers are survivors of recent car bombings. But the attacks still killed many people. The most dramatic targeted Rafik Hariri, a Sunni Muslim and five-time prime minister who in February last year was killed, along with 22 others, by a giant truck bomb.

His death sparked massive demonstrations that ultimately prompted Syria's withdrawal. Elections in June 2005 brought to power a pro-Western coalition, known as the March 14th movement, made up of Sunnis aligned to Mr Hariri as well as Druze and Christian groups. The Christians include Mr Gemayal's Phalange Party, which was founded in 1936 by his grandfather. It was to avenge an attempted assassination of the senior Gemayel in 1975 that Phalangist militiamen massacred a busload of Palestinian football fans, the act that ignited the civil war. They later massacred hundreds more Palestinians in the Sabra and Shatilla refugee camps to avenge the death of Bashir.

With the waning of the tide of indignation that followed Mr Hariri's death, pro-Syrian forces have reasserted themselves, forging alliances with Christian groups that resent March 14th's monopolisation of power. Hizbullah, emboldened by its claimed victory against Israel, and protective of Syria, its main conduit for arms, has led an offensive to unseat the government. This challenge has put into question Lebanon's commitment to an international tribunal to try suspects in the killings.

One more to go

Earlier this month, Hizbullah and its allies pulled six ministers out of the cabinet, dangerously reducing the quorum needed to pass legislation. Mr Gemayel's death further whittles the majority. The removal of just one more minister may force the government to resign. Understandably, March 14th supporters have been quick to blame Syria (which denies being involved). Any trial in the Hariri case, they say, is sure to implicate Syria, but although the UN Security Council has now fixed the mechanism for an international tribunal, formal Lebanese government approval is needed. Obviously, they conclude, Mr Gemayel's death was aimed at stopping this.

Is Syria the assassin? Syria's defenders point out that it is Syria and its allies that have paid the higher political price for Lebanon's troubles. Mr Hariri had come to loathe Syria, but his death demolished Syrian influence and made its leaders pariahs. The killing of Mr Gemayel has reinvigorated pro-government

sympathies in Lebanon. It has rendered it impossible for Hizbullah to hold the anti-government demonstrations it had promised for this week. And it may bring a reconciliation between the Christian factions whose sparring opened the field to Hizbullah in the first place. Perhaps most damagingly for Syria, the murder may silence those who have called for Western powers to stop shunning Syria, in the belief that Damascus can help calm the region. In short, if Syria was responsible, as it still may be, it has shot itself in the foot.

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Sudan and the United Nations

Getting a toe in Darfur

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Despite frustrations, the UN has advanced by a small but crucial step

HOPES were raised at the end of last week that the United Nations had finally persuaded the government of Sudan to accept a large UN force to intervene in the region of Darfur, ravaged by brutal fighting since 2003. The secretary-general, Kofi Annan, announced after a meeting in Ethiopia that he and the Sudanese government had agreed “in principle” to a new “hybrid” UN force. This would take command of, and enlarge, the existing 7,000-man African Union (AU) force which has manifestly failed to keep the peace.

Then, yet once more, these hopes were crushed. By the beginning of this week, the Sudanese government was stressing that no agreement had been reached, in principle or in any other fashion, and that all the old sticking-points remain. Sudan still will not accept a force in Darfur that is under the command of anybody other than the AU. Troop numbers must be kept relatively low; a little more than 7,000, maybe—for controlling an area the size of France. The Sudanese said that they would clarify their position in a week or two, but nobody is expecting them to relent.

Mr Annan did, however, have one clear success at the talks: the Sudanese have accepted what is called in the jargon a “heavy support package”. This means logistical, communications and financial support for the existing AU force. So, for the first time, the UN will attach a small group (with numbers yet to be agreed) of specialist officers to the AU force, as well as providing helicopters and armoured cars. This may not sound much but it is an important step. Until now, the Sudanese have claimed that UN soldiers in Darfur would be agents of Western imperialism, ready to break the country up, as in Iraq.

The way in which the concession was wrung out of the Sudanese is significant: for the first time, the Chinese, in the words of one diplomat, were “putting the screws on Sudan to accept this.” China wields particular influence on the government because it buys almost all of Sudan's oil, providing most of its foreign earnings. But it had been reluctant to support any sort of concerted UN action against Sudan's wishes.

This may now be changing, perhaps because China no longer wants to be held responsible for the tragedy going on in Darfur. The news from the region is very bad, and getting worse. People who are trying to supply food to more than 2m refugees say that the violence is back at the same level of intensity as it was before a “ceasefire” was agreed in 2004 (the ceasefire that the African force is supposed to monitor). Another mini-summit of African countries took place in Libya this week to try to get the Sudanese government and the Darfur rebel groups back to peace talks. But peace looks a distant prospect.

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Bahrain

Playing by unfair rules

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But if Bahrainis boycott the vote, change may come in a less welcome way

TOURIST brochures call Bahrain a land of golden smiles. It is true that this tiny island kingdom in the Gulf is a quiet, friendly and mildly prosperous place. But in the run-up to elections seen as a crucial test for democracy in an autocratic region, few smiles are in evidence.

AFP

Salman's a rare anti-sectarian cleric

Bahraini natives, who make up two-thirds of the archipelago's 750,000 residents, have reason to be sceptical of the election on November 25th. When he acceded to the throne in 1999, King Hamad al-Khalifa made himself hugely popular by ending a 25-year-long state of emergency that had seen thousands arbitrarily arrested and hundreds sent into exile. But the reclusive king, said to be pressured by conservatives in his family, then broke a promise to revive earlier rules whereby three-quarters of parliamentary seats were freely elected.

Instead, he promulgated a constitution that gives equal power to two 40-member legislative houses, only one of them elected. Electoral districting heavily favoured the Sunni Muslim minority, assumed to be more loyal to the Sunni royal family, at the expense of the islands' large, but relatively underprivileged Shia majority. As a result, nearly half the kingdom's voters boycotted elections in 2002.

Disillusionment has grown in the interim, and not only because of the unfair rules. The opposition, which includes liberal Sunnis as well as organised Shia groups, charges the royal family with a host of misdemeanours. Most damningly, many Bahrainis believe that elements within the regime have deliberately stoked sectarianism, by fanning Sunni fears of an Iranian-backed Shia lunge for power.

Even so, the main Shia-based opposition party, Al Wifaq, is presenting a platform that largely eschews sectarian griping. Its candidates, among them respected professionals as well as Shia clerics, concentrate on broader social issues such as unemployment, poor government services and corruption. Such grievances are very real. Despite a per head income of close to $20,000, a third of the native Bahraini workforce earns less than $600 a month. Ramshackle Shia villages ringing the main city, Manama, suffer power cuts, leaky sewage and crowded schools.

Other places to find a drink

It is not only the poor who complain. Unlike other Gulf monarchies, Bahrain has little oil. It has thrived instead as a service hub for the finance industry, and as a weekend escape for parched Saudi Arabians. Recent years, however, have seen a slow but perceptible leakage of clients to brighter spots in the region, such as Dubai, Qatar and Abu Dhabi. Compared to their sleek and ever-rocketing skylines, Manama's looks dowdy and jumbled, a result, charge disgruntled businessmen, of bureaucratic complacency, bad planning and stingy spending on infrastructure.

Wifaq's leader is Ali Salman, a 41-year-old preacher who has spent nearly equal time at seminaries in the Iranian city of Qom and as an exile in London. He inspires intense devotion among religious Shias, but also respect from secular Bahrainis. Despite his clerical training, he cuts an anti-sectarian line. “The problem is not that we are ruled by Sunnis, but that we are ruled by one family,” he insists. Underlining the point, his party has allied with a group of liberal Sunnis. Their main opponents are from the Sunni

Islamist groups that dominate parliament.

Yet despite the preponderance of Shias, and widespread Sunni displeasure with incumbent MPs, even Wifaq enthusiasts do not expect to win more than a bare parliamentary majority, which would then be diluted by royal appointments to the upper house. Unfair electoral rules and subtle state promotion of Sunni candidates are not the only reasons. A Shia splinter group that broke away from Wifaq has called for an active boycott.

Mr Salman knows he is gambling prestige in choosing to play by the government's rules, in the belief that a show of goodwill may be the best way to prompt reforms. But as one of his candidates says, should the relative liberals of Wifaq and its allies fail to deliver change, a Shia uprising could be on the way.

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France

Royal coronation

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GoffINF

Ségolène Royal ushers in a new era of French politics

FOR once, the word historic is not misplaced. Not only is Ségolène Royal, who will be invested by the Socialist Party on November 26th, the first female candidate from a big political party to contest a French presidential election. Her crushing victory also marks the arrival of American-style image politics in a country used to being run by old-time party hacks.

The scale of Ms Royal's win was stunning. With 61% of the votes of card-carrying Socialists, she topped the polls in 101 of the 104 party federations. The three she lost went to Laurent Fabius, a former prime minister. She beat Dominique Strauss-Kahn, her other rival, even in Val d'Oise, the site of his constituency. In four departments she polled over 80% of the vote. With a participation rate of 82% of the 220,000 party members, she now has a clear mandate for next April's election.

What makes the triumph most unusual is the way Ms Royal won it. Traditionally French candidates, left or right, work their way up the hierarchy to control the party machine. Yet Ms Royal, unlike her two rivals, did not even belong to the party's 54-strong national bureau. At the Socialist congress a year ago, she barely said a word—deliberately, she confided, to distance herself from a line of men in suits.

She made her base the rural region of Poitou-Charentes, where she was elected president in 2004, far from the Parisian elite. And she used her popularity with the electorate as a weapon with which to conquer the party. This was possible thanks to an open democratic primary and the support of 70,000 new party members.

With the Socialists and the centre-right UMP committed to primaries, a new era of French politics has begun, driven by public opinion, nourished by the media, and based on image and personality. The appeal of both Ms Royal and Nicolas Sarkozy, the UMP head and front-running centre-right candidate, relies on style, personality and symbolism as much as policy.

Both politicians offer strong narratives. Ms Royal was educated at the elite Ecole Nationale d'Administration (ENA), and was an adviser to François Mitterrand—but she fought childhood battles against an authoritarian military father, who considered girls unfit for education. Mr Sarkozy was mayor of Neuilly, the poshest suburb of Paris, but never went to ENA—and his father was a first-generation

immigrant from Hungary. “I had neither connections, nor fortune,” he says in his latest book, not to mention a “foreign-sounding name”.

Second, both embody an anti-elite politics. From her snow-white jackets to her endless talk of internet-driven “participatory democracy”, Ms Royal comes across as a novelty in a country disillusioned with its rulers: a listener, in touch with ordinary concerns. She said this week that it was up to the French people to decide whether she should stick to the Socialist manifesto, and that all ideas were welcome on her website. It is in this sense that the fact of her being a woman matters: she is, simply, different to others. There is even an echo of the anti-elite message preached by the National Front's Jean-Marie Le Pen.

Mr Sarkozy, a member of the government whose record he often denounces, has more trouble carrying off such brand differentiation. But his plain-talking style, his popularity among the middle classes who feel their pockets squeezed and his frequent spats with President Jacques Chirac have all let him project an image that sets him apart from the elite.

Third, both candidates reject ideological boundaries and present themselves as modernisers. To the discomfort of Socialist-supporting teaching unions, Ms Royal has suggested that teachers should spend more of their already short working week actually in the classroom. Mr Sarkozy, against republican tradition, favours positive discrimination for ethnic minorities. It is sometimes hard to pin down Ms Royal's policies, but this does not mean she has none. As a former colleague from ENA puts it: “Everybody thinks she is nice and not clever. But the truth is she is very clever and absolutely not nice.”

Ms Royal's and Mr Sarkozy's branding techniques may converge, but the end-product is quite distinct. In a poll published this week by BVA, respondents thought Ms Royal “nicer”, more “modern” and more “reassuring”, but Mr Sarkozy more “competent” and “authoritative”.

For now, the momentum is with Ms Royal, who is expected to unveil her campaign team next week. The BVA poll gave her a six-point lead over Mr Sarkozy. Early signs are that her disappointed rivals will rally round. Both Mr Fabius and Mr Strauss-Kahn sent messages of congratulation soon after their defeat. And the party is buoyed by a sudden whiff of potential victory. Indeed, even as the Socialists are starting to pull together, it is the UMP that is looking shaky.

A fresh challenge to Mr Sarkozy was set off by Mr Chirac's wife, Bernadette, who hinted in the *Nouvel Observateur* last week that her husband might stand again. Michèle Alliot-Marie, the defence minister and a firm Chirac ally, also lashed out at some of Mr Sarkozy's pet policies—and was booed for her pains. Dominique de Villepin, the prime minister, chipped in with an implicit attack on the UMP boss by issuing a warning against “fishing in the waters of the National Front”. It still looks as if Mr Sarkozy will win the party primary in early January hands down—polls give him some three-quarters of party support—but the *chiraquiens* are manoeuvring to create space for an alternative.

As it happens, a walkover in the primary might not help Mr Sarkozy. Already he is vulnerable to accusations of control-freakery. A minister from his own party, François Goulard, told *Le Parisien* this week that “Sarkozy is incapable of accepting a point of view that differs to his own.” And American experience suggests that a bruising primary like Ms Royal's seldom weakens candidates, and may even end up reinforcing them.

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Russian poisonings

Abandon hope

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There is little chance of finding the truth about a Russian poisoning in London

AFP

He took tea, sushi—and something nasty

RUSSIAN spooks have been monitoring their exiled compatriots in London since long before the 1917 revolution—even if a century ago the suspicious targets were revolutionaries not renegade oligarchs, and the game was played in the city's grimy East End rather than in Mayfair. Now the British press claims that the Russians have graduated from monitoring to murder. Have they?

There is no hard evidence that Alexander Litvinenko, who before defecting to Britain worked for both the KGB and the FSB, one of the KGB's post-Soviet successors, was poisoned by his erstwhile colleagues. Nor that it was done on the orders of Vladimir Putin, Russia's president and another alumnus of both agencies. Mr Litvinenko, now seriously ill in intensive care in a London hospital, was struck down after meeting a pair of shady Russians for tea and an Italian “defence consultant” for sushi. Doctors now say they may never know the cause; they downplay earlier diagnoses of thallium poisoning. But there are striking trends that London's police investigators may wish to consider.

It may be no coincidence that so many of the Kremlin's least favourite people have complained of poisoning. In 2004 Viktor Yushchenko was poisoned during Ukraine's presidential election campaign, but survived, disfigured, to beat Mr Putin's candidate. Anna Politkovskaya, a crusading Russian journalist, said she was poisoned by the FSB in the same year (she was killed in Moscow last month). A colleague, Yuri Shchekochikhin, died after suffering a mysterious allergic reaction in 2003.

Inconvenient people have been dying with alarming regularity. On November 18th Movladi Baisarov was shot on a Moscow street. He was a Chechen fighter who fell out with Ramzan Kadyrov, a Kremlin ally. Chechen gunmen apparently shot Mr Baisarov as Moscow police looked on. The FSB was protecting Mr Baisarov, but is said to have cut him loose shortly before his death. Mr Baisarov and Mr Litvinenko were both said to be looking into last month's contract killing of Ms Politkovskaya. In July, on Mr Putin's orders, Russian security services also won official permission to hunt terrorists abroad.

For all that, there are other possible explanations for Mr Litvinenko's condition. Some seem implausible to outsiders, but less so in the opaque, cynical world of Russian politics. One is that the culprit is in the circle of London exiles that includes Mr Litvinenko and Boris Berezovsky, an ex-insider who is now one of Mr Putin's bitterest enemies. This theory holds that a healthy Mr Litvinenko was in no position to damage the Kremlin—but his photogenically defoliated body has offered a wonderful propaganda tool to the Berezovsky set. Mr Putin believes, or professes to believe, that foreign-based foes killed Ms Politkovskaya to embarrass the Kremlin.

Another version has it that Mr Litvinenko was poisoned by someone in Russia with a grudge. That person might have links to the FSB, which sees him as a traitor. The sweep and power of Russia's spooks have grown under Mr Putin: one was allegedly caught trying to leave Canada last week. But for all the talk of Mr Putin's authoritarianism, the Russian state is chaotic, factional, corrupt and criminalised; its nominal servants engage in lots of shady activities without Kremlin approval.

Whether or not these various slayings are connected, the chaos is one of the few moderately firm conclusions from this week's dramas. As it becomes richer and bolder, Russia is simultaneously becoming more lawless. Events in London and Moscow have also confirmed the list of subjects that Russians

concerned for their life expectancy should avoid.

The first is the spate of mysterious bombings of Russian apartment blocks in 1999, which contributed to the eruption of a new Chechen war and hence to Mr Putin's election as president in 2000. One of the lurid (but not incredible) accusations levelled by Mr Litvinenko against his former FSB colleagues was that they were responsible for the blasts. Others who have investigated the bombings (such as Mr Shchekochikhin) have come to a sticky end. A second touchy subject is the embezzlement of cash intended for Chechnya's reconstruction. A third, it now seems, is Ms Politkovskaya's murder.

Recent Russian history, however, offers just one cast-iron lesson for Scotland Yard—and it is not an optimistic one. The only thing Russians know for certain about the many outrages they have suffered is that how and why they happened will never be known for certain.

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Italy's spies

Musical chairs

Nov 23rd 2006 | ROME
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The curious case of a clear-out of spymasters in Rome

IT IS not what you might expect in western Europe. But the same could be said of so many things in Italy. On November 20th Romano Prodi's centre-left government got rid of its intelligence chiefs. All three of them: the heads of the military service, SISMI, of the civil agency, SISDE, and of a co-ordinating body, CESIS. In a country whose intelligence services have been suspected of conspiring to destabilise elected governments, the sackings are worthy of note.

Most explanations centred on SISMI's director, General Nicolo Pollari. He is waiting to hear if prosecutors in Milan will indict him on charges of helping the CIA to snatch a radical Muslim cleric in an “extraordinary rendition”. The cleric, known as Abu Omar, was flown to Egypt and allegedly tortured.

But a junior minister denied that the CIA affair had anything to do with the dismissals. It might explain the removal of General Pollari, but it does not apply to the other two spymasters. The director of SISDE, General Mario Mori, was due for retirement. The CESIS boss, Emilio Del Mese, was not. Mr Prodi, who came to power in May, talked of “natural rotation”—scarcely reassuring, since it implies that every Italian government requires new spymasters.

Senior sources have expressed concern that parts of the intelligence services are working against the centre-left. It was discovered that the security division of Telecom Italia, a privatised telecoms group, was running an espionage operation that exploited the firm's access to private data. It is known that this operation had links to private security firms and to official intelligence services. But senior government figures complain that none of the agencies has given the cabinet a full picture of the scope and purpose of Telecom Italia's unit.

It has also been found that SISMI was running its own semi-autonomous unit. In this unit documents were found indicating that it envisaged “traumatic, even bloody” operations against enemies of the previous centre-right government under Silvio Berlusconi.

All of which makes it puzzling that Mr Prodi's government should have chosen to give General Pollari a public endorsement. His removal was accompanied by a statement that he had been appointed to “special and important” (though unspecified) duties in the prime minister's office. It was a true spymaster's exit: as *La Repubblica* remarked, one “into which it is possible to read anything—and its opposite”.

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The Netherlands election

Going Dutch

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An apparent win for the Christian Democrats, but not a big enough one

HE HAS run three rickety cabinets in four years, presided over his country's slide towards being more intolerant and inward-looking and his economic reforms have been unpopular. He personally has been criticised and ridiculed. Meet Jan Peter Balkenende, prime minister, leader of the Christian Democrats—and the apparent winner of this week's Dutch election.

His bounce-back from earlier lows was less surprising than it sounds. Opinions are divided on the merits of Mr Balkenende's reforms, but nobody disputes that, after a long period in the doldrums, the economy is doing well. So are his voters: the Dutch white middle class is gaining most from the upturn and it remains nostalgic for the old-style burgher values that this awkward political leader oozes.

Yet the Christian Democrats' victory was less than convincing. They took 41 of the 150 seats in the lower house of parliament, enough to give Mr Balkenende first stab at assembling a governing coalition. But his preferred cabinet is not on the menu. His loyal partner throughout the past three governments, the Liberals (VVD), suffered a setback, taking only 22 seats. That leaves the two parties 13 seats short of a majority.

The VVD campaigned on promises of more reforms and tougher anti-immigration policies. Last week the VVD immigration minister, Rita Verdonk, called for the abolition of the equality commission after it ruled that a female Muslim schoolteacher was entitled to refuse to shake hands with men on religious grounds. And she announced that the government would ban the wearing of the all-covering Muslim *burqa* or *niqab* in public. None of this did the VVD much good, but it may have helped to push up the vote for Geert Wilders's newly formed Freedom Party, which campaigned to close the borders to all non-western immigrants, and took nine seats.

Even this would not be enough to bridge the gap that the Christian Democrats and the VVD must fill, and they are anyway disinclined to work with the maverick Mr Wilders. Mr Balkenende may instead find himself negotiating a “grand coalition” with the opposition Labour Party, led by his chief political opponent, Wouter Bos. Labour took 32 seats, but even this is not enough to sustain a grand coalition.

Mr Bos had made no secret of his ambitions to have Mr Balkenende's job, but he ended up one of the election's big losers. Some backbenchers blamed his liberal economic views for putting off Labour voters. Many went to the Socialist Party, run by a former Maoist, Jan Marijnissen. Blending leftish populism with isolationism and nationalism, Mr Marijnissen rallied some of the support that, four years ago, catapulted Pim Fortuyn, another populist, onto the political stage. His party took 26 seats, leapfrogging the VVD to become the country's third-biggest. Mr Bos has already asked Mr Balkenende to involve Mr Marijnissen in the coalition bargaining, but it will not be easy for other parties to find common ground with him.

A centre-left coalition is what many observers on all sides of the political spectrum secretly hope for. Mr Balkenende's government may have been good for the economy, but his four years have left a scar in the social tissue of a country that is still trying to come to terms with its multicultural, multi-ethnic nature—and especially with its Muslim population of 1m (out of 16m in all). Many would like to see the abrasive Ms Verdonk lose her job.

Both Christian Democrats and Labour steered clear of the issues of immigration and Islam in the campaign, and also avoided discussing the European Union, though attempts are under way to revive all or part of the constitution that Dutch voters rejected in 2005. This wariness reflects continuing fears of anti-elite feeling—and suggests that the Dutch have not yet got over the 2004 murder of an outspoken film-maker, Theo van Gogh, by a Muslim fanatic. As Gerrit Zalm, the outgoing VVD finance minister,

summed up the election: “It's anarchy. It is extremely difficult to distil a government out of these results.”

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Germany's Christian Democrats

Back to the roots

Nov 23rd 2006 | BERLIN
From The Economist print edition

The sad lack of reformers in Germany, even on the right

REFORM-MINDED Germans ought to be celebrating the evidence that painful change can produce beneficial results. The economy is in its best shape for several years, in part thanks to labour-market, tax and other reforms pushed through by the previous government and by the grand coalition of Christian and Social Democrats (CDU and SPD). Yet the reformers are on the defensive. Although the CDU campaigned on a platform of radical reforms in last year's election, at its annual conference in Dresden next week it is likely to call for the repeal of a central element of labour-market reform.

The CDU and (even more) its Bavarian sister party, the Christian Social Union (CSU), have never been like, say, Britain's Conservatives. Both favour the market economy, but both are also rooted in Catholic doctrine that emphasises social justice. They also stand for cultural conservatism and stability, constituting a “power to protect slowness”, in the words of Franz Walter, a political analyst.

Angela Merkel, now chancellor, was testing the limits when she set out to give the CDU a makeover after becoming chairman in 1998. She pushed the party to accept immigration, a more modern view of the family and a free-market economic programme. At the 2003 party congress in Leipzig, the CDU adopted far-reaching health-care and tax-reform plans.

As long as this led to electoral success, the party faithful were happy. But when Ms Merkel almost lost last year's election, a backlash set in. Jürgen Rüttgers, premier of North Rhine-Westphalia, is the man leading it. Last summer, he said that the CDU should not be a “capitalist” party. Now he is calling for an extension of unemployment benefits for older workers. His motives are partly self-serving: he needs social credentials in a state that leans leftwards. But he is also reacting to a shift in German society. Despite the recovery, the middle class are fearful for their future, especially after the 2005 labour-market reforms cut welfare benefits.

CDU leaders are worried. Spooked by stories of big companies firing thousands even as they make record profits, many Germans no longer believe that what is good for the economy is good for them, says Roland Koch, premier of Hesse. This shift, he adds, may explain why both main parties are at record lows in the polls.

Is Germany turning its back on reform? The CDU may endorse Mr Rüttgers's proposals, but they are not going to become government policy. Party leaders worry that this would drive more voters to the Free Democrats, who have hit 15% in some polls. Franz Müntefering, the SPD vice-chancellor, has dismissed the plans as populism. Surprisingly, the SPD may adopt a more pragmatic economic programme, suggesting that it accepts globalisation more than some in the CDU. Instead of calling foreign investors “locusts”, as Mr Müntefering did last year, the programme says that private-equity funds are part of a healthy financial sector.

Yet enthusiasm for reform seems to be wilting. Debate about privatisation is now dominated by those who argue that the state must keep a big role. Union calls for an end to pay restraint are getting louder. Much will now depend on Ms Merkel. Although she has not abandoned her reform goals, she favours “small steps”. Yet she may have to resort to unusual action. Some suggest that it is even harder to run the CDU/CSU than to run the grand coalition—and are floating the radical idea of ditching the CSU, which is both sceptical over reform and a fierce defender of parochial Bavarian interests (one of its leaders recently accused the SPD of having “neoliberal tendencies”).

Without this regional party, *Handelsblatt*, a business daily, wrote last week, the grand coalition would have had a more successful first year. Yet there is a big drawback: although the CDU and SPD would still

have a majority in both houses of parliament, the SPD would be bigger—and that could cost Ms Merkel her job.

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Archaeology in the Balkans

Looting history

Nov 23rd 2006 | MARVINCI AND BUTRINT
From The Economist print edition

A Balkan battle is on to save the past

THE crime scene is a hole in the ground at Marvinci, in a remote corner of south-western Macedonia. Last month looters dug up a bronze figurine of Apollo and sold it for €20,000 ($26,000) to a Greek dealer. “I know everything, but even the police and customs are involved, so there is nothing I can do,” says Goran Karapetkov, a local archaeologist. “It rips my heart in two.”

Since the break-up of Yugoslavia in 1991, Macedonia's rich archaeological sites have been plundered wholesale. A burly dealer-digger in Marvinci says that poverty has turned looting, chiefly of jewellery, from ancient Greek and Roman tombs into a “fight for survival”. Aided by fake certificates of origin, his finds go to collectors in America, Germany, Greece and Japan. Ill-paid local archaeologists are involved too, he says. A police source in Skopje readily lists the names of some ardent but untouchable collectors, including that of a former senior ambassador.

Ilce Bojcevski, an official trying to stop the looting, hopes that a new law will help. Another good sign was a recent conference in Macedonia that brought officials from ex-Yugoslav countries and Albania together with experts from UNESCO and Interpol. A haul of looted ancient Macedonian treasures was recently seized on the Slovene-Croatian border. Yet, although political will is vital, hard cash is also needed.

Some 300km (190 miles) from Marvinci, at the southern tip of Albania, lies Butrint (Bouthroton in ancient times), which has a theatre and the remains of an early Christian basilica. It used to be a wretched place, submerged by undergrowth and with a looted, derelict museum. Now local schoolchildren, Austrian holidaymakers, Dutch bikers and day-trippers from Corfu all mingle happily in the cleaned-up site. Butrint's revival owes much to two British lords, Jacob Rothschild and John Sainsbury.

Their foundation has raised millions of dollars, mainly from America, to restore the site and pay for new digging. Some locals find its style a bit colonial. But topping up the salaries of Albanian archaeologists means they are paid three times as much as their Macedonian counterparts—and so are keener to protect their country's heritage.

Many looted items have been returned, including a sculpture found in the possession of Robert Hecht, a dealer now on trial in Rome for allegedly dealing in stolen antiquities. Butrint's good fortune is that Lord Rothschild's holiday home is on Corfu. Sadly, landlocked Macedonia is less likely to attract such a benevolent patron.

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Charlemagne

The bear necessities of life

Nov 23rd 2006
From The Economist print edition

Europe and Russia want to forge a new formal partnership agreement, but neither is ready

RUSSIA'S mission to the European Union vies with the American one in Baghdad for the title of the largest embassy in the world. The comparison reflects the importance of the relationship—but also its problems. Europe may not be such hostile territory for Russians as Iraq is for Americans, but relations have become increasingly testy of late. It is symptomatic that, right up to the last minute, this week's normally routine bilateral summit should be overshadowed by a threat from Poland to scupper the entire meeting over a dispute about meat exports.

Such bickering reflects uncertainties on both sides. Nominally, there are close links. As President Vladimir Putin asserted in a column published this week in several European newspapers, “our relations are becoming mature and well structured.” In practice, the EU fears that Russia is slipping into dictatorship. Its antipathy has grown partly because many former Soviet satellites are now EU members and partly because of the decline or fall of Mr Putin's best friends in Europe: Germany's Gerhard Schröder, Italy's Silvio Berlusconi and France's Jacques Chirac. Meanwhile Russia is torn between wanting to be seen as, in Mr Putin's words, “a natural member of the European family”, and pride in being an independent superpower, a fast-growing Eurasian giant and what Dostoyevsky called “a sublime idea”.

Because this is the EU, these uncertainties have manifested themselves not as an argument over specific issues but in a bureaucratic question: “Should we negotiate a new partnership and co-operation agreement?” The EU loves arrangements of this sort, which deal with everything from strategic interests to widget tariffs. It has struck similar deals with most of its neighbours. The Russian one was negotiated in the early 1990s and signed in 1997. Initially, it had a ten-year life—which is why this week's summit was supposed to start formal negotiations on a new one. Thanks to the Poles, that will not now happen.

Russia is still keen. It signed the present partnership agreement at a time when decision-makers in the Kremlin were talking of “a common European house”, and both sides thought that common values and European norms could be the basis of their relationship. But the Russians no longer accept this. Mr Putin is always banging on about Russia's specific form of democracy. This week he repeated that “it would be useless and wrong to try to force artificial 'standards' on each other.” Rather like the hangdog American comedian, Rodney Dangerfield, he seems to be fretting that “I don't get no respect.”

Many Europeans also want a new agreement, on the ground that it might help to overcome recent

difficulties with Russia*. But the Poles disagree. They do not trust the Russians; they believe that toughness is the only language these people understand; and they do not want the EU to sign a treaty that could water down Europe's promotion of human rights and democracy. To its partners' dismay, Poland this week continued to withhold support for formal authority to negotiate a new partnership agreement.

The notion of simply not bothering with a new treaty is far from absurd, especially now that Russia has reached agreement with its main partners (though not Moldova or Georgia, see article) on its entry into the World Trade Organisation. WTO membership would anchor it in the international trading system, with no need for special help from the EU. Russia and America do not have an overarching agreement, just a series of specific, security-related, accords. Many things that the Russians and the EU do together either do not need a comprehensive agreement or (as with security matters) would not be included anyway.

Negotiations on a new comprehensive treaty would themselves be protracted and antagonistic, since they would inevitably bring into the open simmering differences over shared values, and would risk exposing Europe's own internal divisions over how to treat Russia. The talks could detract from useful practical things, such as a new visa regime, or trying to persuade Russia that it is in its own interests to open up its gas-pipeline monopoly. And they might end in tears: such a treaty would have to be ratified by every EU member, and the process of ratification within the EU always brings perils of its own.

The benefits of muddle

On the other hand, there are good arguments against letting the entire bilateral arrangement fall apart. Russia would see this as a hostile act. Most Europeans do not want to let the partnership agreement go. They have not given up hope that it could one day be used to lure the Russians into the sweet entanglements of pooled sovereignty and EU law. They fear for their gas supplies. And they think that, whereas an arms'-length relationship might be all right for America and Russia, Europeans and Russians need a more comprehensive and detailed legal basis to work from because the two sides have much more everyday business (55% of Russia's exports go to the EU, for instance).

The answer is that Russia and the EU should muddle through, perhaps until Mr Putin steps down in 2008. That points to extending, not renegotiating, the partnership. Such a course is easy: indeed, it happens automatically unless one side pulls out. It means rejecting Mr Putin's demand that “we should first decide what we want from each other over the next several decades” in favour of more modest sectoral talks. It means both sides resigning themselves to a status quo that they dislike. Yet it reflects the ambivalence of how they feel about each other. It would, as a former EU ambassador to Russia, Michael Emerson, puts it, be “a reasonably courteous management of ambiguity”.

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* See “A New Agreement between the EU and Russia” by Michael Emerson, Fabrizio Tassinari and Marius Vahl. Centre for European Policy Studies, May 2006; “The EU and Russia: From Principle to Pragmatism?” by Katinka Barysch. Centre for European Reform, November 2006.

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The battle for ITV

The Murdoch factor

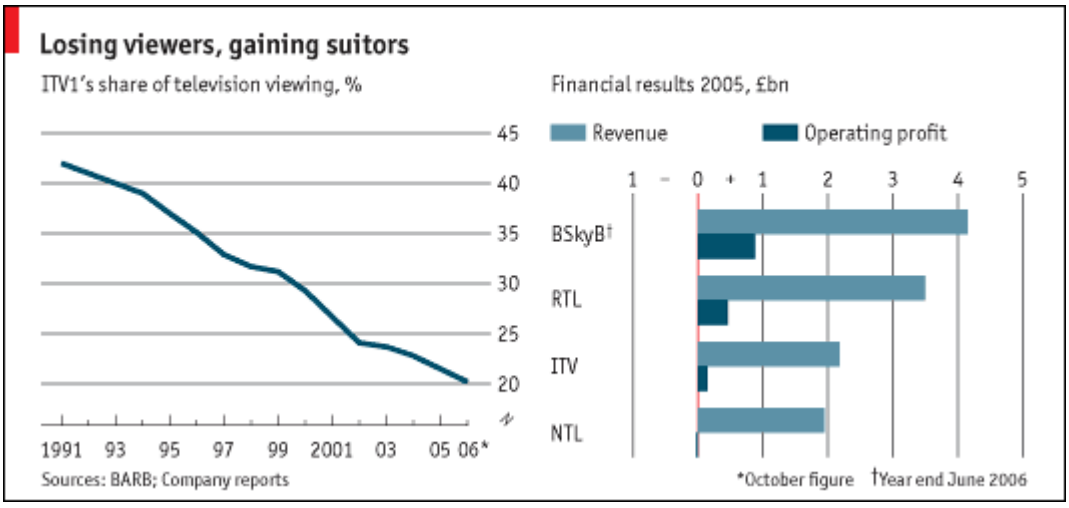
Nov 23rd 2006
From The Economist print edition

Rex Features

BSkyB's sudden pounce on ITV was a triumph of raw power, but what does it mean in the longer term?

IN THE clubby world of British television, BSkyB, the broadcaster controlled by Rupert Murdoch, has behaved like an angry outsider ever since it sent up its first satellite signal in 1989. Its enormous success—8.3m households now pay for its hundreds of television channels, bringing in over £4 billion ($7.6 billion) of revenues a year—has made it both hated and feared among its competitors. So its sudden purchase on November 17th of 17.9% of ITV, the country's largest commercial broadcaster, for £940m, has caused a huge fuss.

BSkyB's main rival in pay television, NTL, a cable firm, had been trying to buy all of ITV. One of its shareholders, Sir Richard Branson, reacted furiously this week, calling for the government to stand up to Mr Murdoch's empire for the sake of democracy. As well as its 38% stake in BSkyB, Mr Murdoch's company, News Corporation, owns the *Sun* and other titles which together represent 32% of total weekly newspaper sales. To stop him dominating the media, a law prevents BSkyB from buying more than 20% of ITV. Nonetheless, Ofcom, the communications regulator, said this week that it would examine BSkyB's move to determine if it now effectively controls ITV, and if so, what the effect on programming might be.



ITV is vulnerable because of the rise of “multichannel” television. Lots of people now have access to dozens or hundreds of channels, not just the old handful. The resulting shift of viewing towards the small and niche has put great strain on established broadcasters. Some kind of restructuring in the television market was likely at some point, and as the hardest hit, ITV is the obvious place to begin. The audience for its main channel, ITV1, has fallen steadily (see chart). Its advertising revenues are falling too. In March ITV fended off a takeover bid from a group of private-equity firms, and four months later its board ousted its chief executive, Charles Allen, who has still not been replaced.

If NTL had carried off ITV, it could have used its programming to bolster its own TV products, and ITV's channels to promote them. Even though NTL is a weak company struggling to digest two big recent acquisitions, BSkyB decided it needed to put a stop to the deal. Because of NTL's particular circumstances, the 17.9% stake should be enough. The cable firm needs to own all of ITV to be able to get its hands on the broadcaster's cashflow to support more debt; and 75% to set its own past tax losses against ITV's profits. In any case, this week ITV rejected NTL's bid as too low.

Some people in the City reckon that BSkyB's seeming fear of a strengthened NTL sends a worrying signal to Mr Murdoch's own investors. After all, the market has also become more competitive for BSkyB and it is growing more slowly than it did in the 1990s. However, that interpretation is ridiculous, says Claire Enders of Enders Analysis, an independent research firm. Rather, she says, “this is the brilliant, iconoclastic move of a company to say ‘we're powerful and we're going to decide what happens to ITV'.”

Despite Sir Richard's railing against a familiar bogeyman, it is in fact Mr Murdoch's son, James, BSkyB's chief executive, who decided to pounce. His father, who is BSkyB's chairman, approved his action from Australia. “It shows that James is a chip off the old block,” says a News Corporation executive. The elder Mr Murdoch did something similar recently when he bought 7.5% of John Fairfax Holdings, an Australian media group. The purpose, Mr Murdoch said later, was just to make it difficult for anyone else to take it over.

His son cannot be so candid. Regulators might suspect anti-competitive behaviour if BSkyB confirmed what most people in the media industry and the City believe—that it bought its stake in ITV chiefly to thwart NTL. BSkyB claims that its purpose is to benefit financially from what it believes will be a turnaround at ITV. It now portrays itself as a white knight for the beleaguered broadcaster—an incongruous position considering its usual rudeness about ITV. For the moment the tactic seems to be working: neither Ofcom nor the Office of Fair Trading (OFT) are likely to force BSkyB to sell its stake, according to a former regulator.

Does BSkyB have a purpose beyond blocking NTL? A likelier explanation than any sudden optimism about the broadcaster is that it wants to stay close for its own strategic reasons. BSkyB's ultimate aim is to tempt the vast majority of households into paying for television, as in America, rather than settling for the free kind. It might now be able to nudge ITV towards the pay world, which would make free television less attractive. Both BSkyB and ITV are shareholders in Freeview, a free, digital-terrestrial multichannel platform whose popularity has meant that many people who might have become customers of BSkyB have stayed with free TV. BSkyB would doubtless like more say in how Freeview develops in future.

At the least, owning nearly a fifth of ITV could give BSkyB insight into what its free-to-air rivals are up to. In 1997 it joined in a new digital-television venture called British Digital Broadcasting, alongside Carlton and Granada, the two firms that later merged in 2004 to form ITV. That time the Independent Television Commission swiftly forced it out for reasons to do with competition, but the episode showed BSkyB's liking for being on the inside of its rivals' initiatives.

For a while after he became chief executive three years ago, it seemed as if the younger Murdoch might strike a friendlier pose towards the television establishment. He has succeeded in broadening BSkyB's appeal well beyond sport-loving men in pubs to family programmes for richer households. The move on ITV suggests, however, that the firm's aggressive instincts have not changed much at all.

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London Olympics

Think of a number

Nov 23rd 2006
From The Economist print edition

Predictably the costs of staging the games are spiralling up

Reuters

The bill will be Olympic-sized too

MOST Londoners reacted with joy when the International Olympic Committee awarded the 2012 summer games to their city in July last year. That most Olympics lose money, often in vast amounts, was ignored in the spasm of patriotic pride. But now there is an increasingly acrimonious row over how much the games will cost and who will end up paying for the overrun.

The arguments started on October 18th, with the resignation of Jack Lemley, the American engineer in charge of the project, who blamed political interference for his departure and gave warning that costs would soar. Subsequent events have proved him right. Earlier this month it was revealed that the organisers faced an unknown—but large—bill for VAT (a sales tax), something that had oddly been left out of the original budget.

That budget specified £2.4 billion ($4.6 billion) for building the venues and running the games (see table). Another £1 billion was set aside, though not included in the headline figure, for redeveloping the Lower Lea Valley, a run-down wasteland in east London close to where the games will be staged, whose regeneration formed an important part of Britain's bid.

Taxcurling

2012 Olympics cost estimates

Item	£bn
Original cost	2.4
Original regeneration	1.0
Extra construction costs	0.5
Extra project management	0.4
Extra regeneration	0.4
Total costs disclosed	4.7

Source: Olympic Development Agency; *The Economist*

On November 21st Tessa Jowell, the culture secretary, informed a parliamentary committee that rising raw-material costs and extra payments to project managers meant a further £900m would be necessary. Moreover, the London Assembly has established that the regeneration work will cost an additional £400m because of higher land prices.

On the basis of these figures, the Olympics will cost as much as £4.7 billion. But there are other, unknown costs that should be added too. For one thing, there is the VAT bill. There will also be a big cost for extra security as a result of the July 7th bombings, which happened the day after London won the games. Finally, the Treasury is demanding a hefty contingency reserve to cover any further cost slippages.

Public confidence was hardly helped by a startling admission on November 15th by Sir Roy McNulty, head of the Olympic Delivery Authority. He told the London Assembly that the original budget had not included

proper costings for the venues or a complete analysis of the sites.

A combination of spin, counter-spin and an official reluctance to reveal the full costs means that a wide variety of estimates are doing the rounds. Unofficial guesses range as high as £8 billion, but the truth is that no one really knows, according to Brian Coleman, the London Assembly's chairman. “There's confusion from all angles and no transparency about anything,” he says. Another row, over who will stump up the oodles of extra cash that will be needed, is also simmering away.

Clarity may come with the new year, when a formal budget is due. The government puts a brave face on the row, claiming that London is doing better than previous organisers: “Sydney didn't have a budget until two years before the event,” insists a spokesman. But given Britain's record on big infrastructure projects few would bet on next year's budget being the final word on what is becoming a very expensive spectacle.

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West Coast Main Line

Off track

Nov 23rd 2006
From The Economist print edition

Never doubt the power of bureaucrats to waste your money

Get article background

ENGINEERS are unusually fond of quoting Murphy's law that “if things can go wrong they will”, largely because theirs is an uncommonly disaster-prone profession. This week the accountants at the National Audit Office, a spending watchdog, showed just how costly it can be when large projects go awry.

The NAO reckons that upgrading the West Coast Main Line, which runs from London to Glasgow, will cost about £8.6 billion ($15.2 billion). That compares with £2.5 billion in today's money when the project was first approved (see table).

The costs tilt too

West Coast Main Line upgrade, cost estimates
2005-06 prices

Date	£bn	Date	£bn
June 1998	2.5	May 2002	14.5
June 1999	5.6	May 2003	9.4
December 2001	7.4	April 2006	8.6

Source: National Audit Office

Furthermore, most of the money is now coming from the public purse rather than the private sector. The upgrade had fallen into such disarray by 2002 that its projected cost had spiralled out of control, reaching an astonishing £14.5 billion. Such was the scale of the overrun that it contributed to the demise of Railtrack, the privatised owner of the track, and the effective renationalisation of the country's rail infrastructure.

The NAO shows how the project and its costs were brought back under control after 2002 but the report also raises some disturbing questions. First, the shiny renovated line with its tilting trains, due to be finished in 2009, may run out of capacity between 2015 and 2020. That could mean yet more calls on the public purse.

Second and more perturbing, the report shows how dubious were some of the assumptions used to justify pouring public money into the upgrade. An official study had established in 2004 that for every £1 spent on renovating the line, a total benefit of £2.50 would be generated. The gain included shorter journey times for passengers and less congestion on the roads for everyone else. As such, the project looked attractive compared with, for instance, London's Crossrail, which is forecast to deliver £1.80 in benefits for every £1 that it costs.

But the NAO points out that the study left out billions of spending that had already been incurred. The cost-benefit analysis was based on additional spending of £5.6 billion rather than the full £8.6 billion. That may have been the right thing to do at the time, but it flattered the figures. And if more pessimistic assumptions had been used, then the model could have shown the costs outweighing the benefits, the NAO said.

None of which offers solace to Londoners. For years they have clamoured for Crossrail. Now it will be further delayed because of the all too predictable cost overruns on the Olympics.

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Free banking

Checking out

Nov 23rd 2006
From The Economist print edition

Britain's free-banking model may be on the way out

THERE is much about British life that puzzles foreigners, but little is more perplexing than the discovery that most Britons do not pay fees on their current accounts. “It's uniquely British,” says Philip Middleton, a banking expert at Ernst & Young, an accounting firm.

But now this cherished free banking for customers who keep their current accounts in credit is under threat. First Direct, an internet-and-telephone bank, last week unveiled plans to start charging customers £10 ($19) a month for running their current accounts. The charge will affect only the minority of customers who do not hold a minimum balance of £1,500 or who deposit less than that each month, and it can be avoided by signing up for any of the bank's other products. However, the decision was still greeted with howls of protest and dire warnings that other lenders would follow suit.

Nationwide, the country's biggest mutually-owned mortgage lender, soon obliged, saying First Direct's fee was a “nail in the coffin” for free banking, while opportunistically suggesting that it too might be forced to introduce charges. Consumer groups and politicians, meanwhile, said that banks' poorer customers would be especially hard-hit.

Yet amid the outrage few paused to note two key facts. First, consumer banking is anything but free. Second, the poor already bear a disproportionate share of banking charges.

Banking appears free because, since the early 1980s, banks have cut a deal with their customers to waive transaction fees in exchange for paying paltry rates of interest on balances held in current accounts. But the real price of these accounts is the £40-60 that the typical customer forgoes each year in interest.

Even that is barely enough to make current accounts profitable, says Mark Weil of Mercer Oliver Wyman, a consulting firm. Banks make their money from selling other services and by imposing charges that are less visible to customers and thus subject to less competition. Most of these fees are paid by banks' less well-off customers, industry insiders say, because they are the ones who miss card payments, exceed credit limits or buy loan-payment insurance. The industry has become rife with cross-subsidies, says Mr Weil.

The Office of Fair Trading, a competition regulator, has recently ruled that last year banks wrongly collected more than £300m in credit-card fees levied on customers who missed payments or exceeded credit limits. It has forced banks to cap their charges at £12 a payment, compared with the £25-30 that had been typical in the industry. It is now probing similar charges on current accounts and is also casting a beady eye at the price of loan insurance. It reckons a more competitive market for this cover could cut the cost to consumers by about £1 billion a year.

But capping particular fees may not benefit consumers as a whole since banks can raise prices elsewhere. That is already happening. PricewaterhouseCoopers, an accounting firm, reckons 19 credit-card providers raised their lending rates in the months immediately after the OFT capped penalty rates.

Imposing price controls and mandating products is a sure way to reduce the competition that has already delivered clear benefits to consumers in Britain, who enjoy cheaper banking than in other big economies. Customers in America, Italy and Germany pay almost twice as much each year to transact with their banks, according to a 2005 study by Capgemini, a consulting firm. It may seem counter-intuitive, but the biggest winners from the demise of free banking may be the poor.

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Water metering

Soggy politics

Nov 23rd 2006
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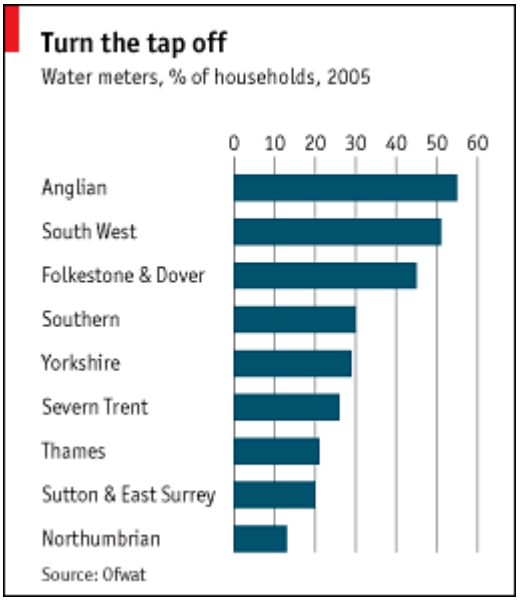
Plans to reform water charges do not go far enough



SHORTLY after Labour won power in 1997 John Prescott, the deputy prime minister, held a "water summit" to crack down on leaks and to help deal with rising demand. Little came of it. Nine years later much of England has been in the grip of a drought, to which the response has been hose bans and ministerial exhortations to use less water. Even if a rainy winter were to refill the underground aquifers, future shortages would still be likely because of increasing population density in the south, the driest part of the country.

The problem is made worse by a pricing regime that encourages households to waste water. At present most Britons pay a flat annual fee linked to the value of their homes, rather than metered charges based on how much water they use. On November 20th the government took a small step in the right direction by saying it would hold talks next year on making meters compulsory for homes in especially dry parts of Britain.

The reform is overdue. Ofwat, the unattractively named water regulator, says that consumption typically declines by 5-10% in metered households. The benefits of universal metering would be widespread. The regulator reckons that two-thirds of customers would see their bills fall and that only the biggest or most extravagant families would end up having to pay more.

In some areas—generally the drier ones—vigorous advertising by water firms has already persuaded many people to accept meters voluntarily (see chart). But there are limits to what campaigns can achieve, and the third of consumers who are currently underpaying for their water have a strong incentive not to switch.

The government sees the merits of metering but has been timid in practice. Meters are fitted to new homes, but ministers have shied away from imposing them on everyone. The same timidity characterises the new plans. Companies that want mandatory metering would have to jump through bureaucratic hoops. They would have to show they have done everything they can do to save water, and that metering is needed to achieve further reductions, says the environment ministry.

The reason for such official timorousness, says Ian Barker, head of water resources at the Environment Agency, is that British consumers are used to regarding water as a special case, which should be paid for differently from other essential utilities like electricity or gas. Ministers also worry about large, poor families (who would lose from metering) and argue that a national scheme would make no sense, since some regions have plenty of water.

Alamy

Metering has its upside

None of these arguments is particularly compelling. Water meters are common in other developed countries—almost all homes in Germany, France and America have them—yet poor families there do not want for water. Ofwat's David Brittin makes a comparison with other essentials: “No one would expect to pay a flat fee for unlimited food or unlimited petrol,” he says. Targeted support for the poorest makes more sense than perverse incentives for everybody. Such a scheme is already being tested in the south-west.

And meters make sense regardless of whether water is abundant or scarce. Tying the level of payments to the value of a house is a crude method that encourages the subsidy of the wasteful by the frugal. That is unwise in the parched south, and unjust in the damp north.

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Mental-health law

Try, try and try again

Nov 23rd 2006
From The Economist print edition

The government's third attempt to legislate may succeed

TWICE in the past four years the government has brought forward new legislation to protect the public more effectively from mad people who are violent. Twice it has backed down in the face of opposition from mental-health groups. They have argued that the government's approach was draconian because it infringed the rights of the mentally ill, and misconceived because the link between mental illness and homicide is weak.

Now ministers are trying again. On November 17th they produced stripped-down draft laws that would, they claimed, improve the safety of the public and patients. The Mental Health Alliance, representing 78 groups including charities and medical bodies, vowed, again, to oppose it.

The new bill came out just after a report was published about a horrifying case that seemed to justify public worries. In September 2004 John Barrett, a paranoid schizophrenic who had absconded from hospital after an unsupervised walk in its grounds, took a taxi the next day to a London park and stabbed a cyclist to death.

The new bill, which will apply to England and Wales, does two main things. First, it introduces “community-treatment orders” which will allow care and medication to be made compulsory for patients outside hospital. Second, it removes a loophole in the current law, which allows people with severe personality disorders to escape treatment by arguing that it will not benefit them. These measures are similar to those in the draft bill published in September 2004. But the government thinks that the case for reform is bolstered by a growing body of evidence.

The main purpose of the orders is to ensure that patients continue to take their medication outside hospital, since failure to do this can lead some to become violent. This will no longer be uncharted territory because they were introduced last year in Scotland. An early audit of their use by the King's Fund, a health-policy think-tank, was broadly positive. The new orders have been used for a small minority of “revolving-door” patients with a history of failing to comply with medication.

This is the same group that the government wants to target elsewhere. With good reason, says Tony Maden, a professor of forensic psychiatry at Imperial College London, who published in March an audit of several homicides committed by the mentally ill. He found that in many cases psychiatrists highlighted non-compliance with medication as a crucial factor in increasing risk among schizophrenics.

The National Confidential Inquiry into Suicide and Homicide by People with Mental Illness, a government-funded project at Manchester University, has also found a small but significant association between schizophrenia and homicide. Around 1% of the general population has schizophrenia, but 5% of homicides are committed by schizophrenics. The rolling inquiry finds that few killings by the mentally ill are seen as preventable; but of those that are, there is a link with non-compliance and schizophrenia.

The second part of the government's proposals is about treating those with personality disorders. Here the government is pointing to four pilot projects it has been able to conduct in prisons and special hospitals. Mr Maden, who runs one, says that most patients respond to treatment once they know that they will not be freed by claiming “untreatability”.

Armed with this evidence, the government may have a better chance of succeeding with its third attempt at reform. Despite the stance of the Mental Health Alliance, some medical bodies, including the Royal College of Nursing and the Royal College of Psychiatrists appear to be softening their opposition—although they want the bill to be amended. One worry is that the compulsory orders will catch more

people than the target group of revolving-door patients. It is difficult to balance the rights of the mentally ill with the protection of the public, but the bill now deserves a proper hearing rather than immediate rejection.

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English wine

A novel kind of fizz

Nov 23rd 2006
From The Economist print edition

English vineyards are making a surprising comeback

WHEN Henry VIII dissolved the monasteries in 1536, he put paid to more than the cloistered life. English winemaking, which had flourished since medieval times, disappeared as well. Now it is having a renaissance. Growers had a bumper crop this year. Denbies, the country's largest vineyard, produced over 500,000 bottles, up by two-thirds from the 300,000 it made last year.

The English wine industry is still tiny. It produced 1.3m litres last year whereas the rest of Europe made 179m. Progress has been uneven since the revival began 30 years ago. The big development in the past decade has been a shift up-market, says Julia Trustram Eve of English Wine Producers, a trade association. Production of quality white wine has increased by a fifth since 1998.

The government is taking a keen interest in this unlikely success story. The agriculture department has set up a “wine-policy unit” to sponsor the industry and to represent its interests in Europe. It believes English wine production has a solid economic future.

Sparkling wine is doing particularly well thanks in part to longer, warmer summers. From May to September this year the temperature averaged 16°C. That may be shivery for the *bodegas* of Spain but it was 1.5° higher than the average summer from 1990 to 2005, which in turn was 1.8° up on the previous 15-year average. The soil helps too: southern England belongs to part of the same chalk belt as France's Champagne region.

The belief that warmer weather is here to stay is giving people the confidence to try winemaking, says Mrs Trustram Eve. Setting up in business, though, requires deep pockets and patience. It takes over seven years for an initial investment of £5,000 an acre in vines producing sparkling wine to pay off.

Not everyone thinks English winemakers should raise a glass to climate change. The crops may become larger and more regular but the new weather pattern may have its drawbacks, says Stephen Skelton, a wine critic. He points out that if it brings more rain during the growing season, vineyards will not be celebrating.

However, the industry is not relying solely on more clement weather. Winemakers are becoming a lot more professional. English brands such as Nyetimber and RidgeView now have their own fans and powerful supermarkets are beginning to stock them. Indeed Waitrose, an up-market supermarket chain, accounts for a quarter of all English wine sold in stores and off-licences in Britain. English sparkling wines are seen as a direct competitor to champagne, claims Michael Roberts of RidgeView, a vineyard that uses only champagne grapes. English bubbly costs between £17 and £22 a bottle—about the same as some champagne.

The renaissance of English winemaking still has a long way to go. Britain is already a formidably competitive wine market. Consumers are spoilt for choice as an ever-increasing variety of wines becomes available from ever-more-remote parts of the New World and ever-more unheard-of vineyards in the Old. But at least English wine is starting to make a name for itself and is no longer the stuff of comedy sketches.

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Bagehot

Float like a butterfly, sting like a bee

Nov 23rd 2006
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To Labour's growing frustration, David Cameron is proving an elusive target

THE idea that David Cameron is the Tories' answer to Tony Blair is hardly a new one. This makes it all the more paradoxical that the party which, for over a decade, has reaped the electoral benefit of Mr Blair's particular political genius still seems to have no coherent or settled idea about how to deal with the threat that Mr Cameron clearly represents.

So far, Labour has tried “still the same old Tory” and “chameleon Dave”. Neither has gained any traction at all. Just as people could see that Mr Blair was plainly not “same old Labour”, they can see that Mr Cameron is genuinely different from Margaret Thatcher and the hapless trio who came after the dull but decent John Major. Just as the Conservatives lost all credibility when they produced a poster of Mr Blair with demonic eyes before the 1997 election, so Labour fails when it attempts to brand Mr Cameron as a Thatcherite wolf in sheep's clothing.

The chameleon jibe is just as hopeless. When New Labour made its peace with market economics, it also made itself electable. So what if Mr Cameron's passionate concern for environment appears to be of relatively recent origin? Voters are unlikely to think less of him because his mind is open to the mounting evidence of climate change. Similarly, they are unlikely to punish Mr Cameron for abandoning the Tories' previous obsessions with things that most people are indifferent to, such as the inner workings of the European Union, in favour of things they do care about, such as the state of the health service.

Mr Blair, to his credit, was pretty sceptical about both those approaches. But he is very much the author of the latest attempt to cut Mr Cameron down to size. Last week Mr Blair declared that “the next election will be a flyweight versus a heavyweight”. He went on to say that no matter how much Mr Cameron might “dance around the ring beforehand, at some point, he will come within the reach of a big clunking fist and, you know what, he will be out on his feet, carried out of the ring.”

Although thrillingly effective in the gladiatorial arena of the House of Commons and, from Gordon Brown's point of view, a welcome endorsement of his leadership credentials, Mr Blair's imagery seemed less well-judged by the weekend. Mr Cameron had looked rattled at the time. But he and his team quickly realised that the picture conjured up by Mr Blair of Mr Brown lumbering after his more sprightly rival intent on smashing in his head, was a gift.

A poll by ICM in this week's *Guardian* suggests that when voters are asked to imagine Mr Brown going head-to-head with Mr Cameron, the Tory lead over Labour extends from five percentage points to eight. Earlier this month, a Populus poll in the *Times* showed where the Tory lead is coming from. Whereas men favour Labour under Mr Brown over the Cameron-led Tories by 37% to 34%, women split 42% to 30% the other way.

That Mr Brown relishes his bruiser image says something both about the way in which he conducts his politics and the difficulty he faces in winning back the swing voters who have deserted Labour for the herbivorous Liberal Democrats in the last few years and, more recently, for the Cameron-sanitised Tories.

Almost as problematic is the prime minister's depiction of Mr Cameron as a lightweight who peddles sunshine and hope without ever having “taken a tough decision” in his life. Although designed to contrast him not just with Mr Brown, but with the grizzled veteran Mr Blair has himself become, the truth is psychologically more complex. Mr Blair sees in Mr Cameron some of the callowness that he now despises in his earlier self—that earlier self whose optimism and inexperience contributed to the frittering away of Labour's first years in office.

As it happens, despite the dearth of Tory policies, there is nothing insubstantial about the way in which Mr Cameron is preparing himself to take on Mr Brown. The largely successful first phase of his leadership, which was all about changing perceptions of the party, has begun to merge into the next. According to Oliver Letwin, who is in charge of policy co-ordination and much else besides, it is now time to move on to sharing with the electorate a thorough analysis of the condition of Britain. Mr Letwin says: “In the past, if we brought forward a policy designed to improve the NHS, people would think our real aim was to kill it. Now when we talk about social justice, schools or the environment, they don't automatically dismiss it.”

A Clause IV moment?

On November 24th Mr Cameron was due to make a speech expected to endorse the message of a pamphlet published this week by the party's social justice policy group. One of its authors, Greg Clark, an up-and-coming MP close to Mr Cameron, writes: “If the poorest people in this country fall too far behind those further up the income scale our society will fall apart.” Such explicit recognition of the importance of relative poverty could become the Tory version of Labour's so-called Clause IV moment when Mr Blair persuaded his party to give up its historic commitment to nationalising things.

In an accompanying paper, Mr Clark produces a critique of Labour's anti-poverty policies, claiming that they have failed to help some of the poorest people in Britain. Subsequent reports will try to show how a Conservative government could do better. Mr Letwin says that this work, in common with that of the five other policy groups, will inform, but not dictate, the policies the shadow cabinet draws up for the election manifesto.

Until those policies emerge in late 2008, we won't know whether all the effort has been worth it. Compassionate conservatism could well turn out to be rather better at description and analysis than coming up with affordable remedies. But what is not in doubt is that Mr Cameron has committed his party to a serious and painstaking process. Lightweight it isn't.

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Nuclear power

The ghostly flickers of a new dawn

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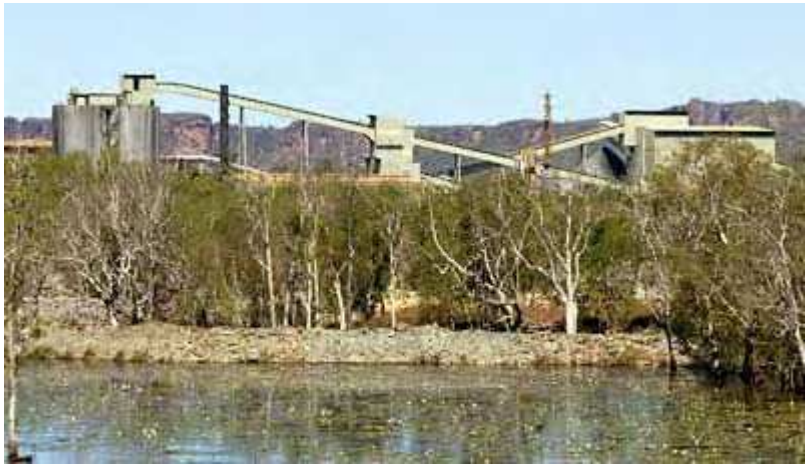

A shift in Australia's stance is a sign of the times: all over the world governments are rethinking the politics and economics of nuclear power

Get article background

FOR much of its 26-year life the Ranger uranium mine in north Australia has seen protests from ecologists who oppose digging for nuclear fuel on the edge of a world heritage park. But by 2008, as the mine's riches run out, Australia may be marching towards a new nuclear era, prompted in part by fear of climate change, the biggest ecological issue of all.

On November 21st a government report said Australia should do more than sell uranium to other countries: it should use the material to fuel its own nuclear-power industry, and hence curb its greenhouse gas emissions. That is what John Howard, the prime minister, wanted to hear. Long a sceptic over global warming, he amazed everyone by saying during a trip to Canada in May that nuclear power was an “inevitable” choice for Australia.

In many parts of the world the mood is shifting in favour of nuclear energy—often because other responses to climate change seem harder (see article). That in turn is creating new worries over the diversion of nuclear fuel to make bombs (see article) and making the distant dream of nuclear fusion even more attractive (see article).

Among rich countries Australia stands out as a place whose geography and geology pull its energy planners in different directions. It has 38% of the world's low-cost uranium reserves, but has never made its own nuclear power. Cheap coal fuels 80% of its electricity, gas the rest. But Mr Howard, having dropped his bombshell, ordered a policy review from Ziggy Switkowski, a scientifically inclined businessman.

His conclusions? Australia could quadruple its 2005 revenue from exporting uranium oxide (mainly to America, France and Japan) if it enriched and fabricated the fuel first. He also says Australia should consider installing its first nuclear reactor by 2020, building up to 25 reactors by 2050; such a grid could supply one-third of the country's electricity and cut greenhouse gases by almost one-fifth.

The report is already dividing the country. Not even Mr Howard liked it all: it acknowledges that nuclear power would be up to 50% dearer than electricity from coal. It would be competitive “only where the

costs of greenhouse-gas emissions are explicitly recognised", in other words by imposing carbon taxes, something Mr Howard has rejected.

With nuclear power now set to dominate next year's general election, Mr Switkowski has certainly given those worried about global warming something to think about: he notes that Australia's uranium exports alone (a record 12,000 tonnes last year) are enough to supply more than twice its annual electricity needs.

How the nuclear calculus varies

	No. of reactors	% of electric power	Future plans	Politics
France	59	79	Stack 'em high	Even the communists are keen
United States	103	19	18 new reactors mooted	Subsidies galore
India	16	3	Gradual increase	Point of national pride
Germany	17	31	Phase out	Leftists anti-nuke; rightists less so
Britain	23	20	Phase back in	Leftists pro-nuke; rightists less so
Lithuania	1	70	Phase out, then in	Scared of Russia
South Korea	20	45	8 more reactors in the works	No arguments

Sources: World Nuclear Association; *The Economist*

Elsewhere in the world so many nations are either building new plants, or thinking about it, that energy analysts are speaking of a nuclear renaissance. New reactors are being built in 13 countries. Governments in others, like Britain and America, want to make it easier to start new plants. Several European states are slowing down plans to phase out nuclear power. Asian ones, whose nuclear appetite never faded, plan ever more reactors.

In most places the nuclear debate hinges on safety, cost, the environment and security of supply. Atomic energy lost favour after a near disaster at Three Mile Island in America in 1979 and a real one at Chernobyl in the Soviet Union in 1986. But engineering firms say their latest designs are safer. Several claim to build "passively safe" plants that need no human or mechanical intervention to close after a fault, but rely on the laws of physics to contain runaway reactions. Regulators are tougher too: Finland has told Areva, a French firm making a new reactor, that it must be able to withstand a crashing plane. A consensus is emerging about where to put nuclear waste: most countries want to bury it underground, though only Finland and America have chosen sites.

As for economics, study after study rates nuclear fission one of the cheapest ways to make power. In practice, however, nuclear plants have often disappointed because of delays, cost overruns and breakdowns. But utilities seem to be getting better at maintenance; some keep their reactors going more than 90% of the time. In democracies, politics is the biggest cause of delay and financial upset. Nuclear policies can be as fickle as government coalitions. Public opinion and local planners are often more sceptical than national authorities—so getting permits is a nail-biting business. Utilities like to skirt such problems by putting new reactors near existing ones, where locals accept nuclear power. Many operators in America and Europe have quietly raised their nuclear output by upgrading existing plants.

Britain plans to encourage new reactors by amending its planning laws. Design will be approved by the national government, leaving local authorities to deal with narrower issues. America is offering utilities up to $2 billion in insurance against planning delays. Authoritarian countries like China, and even democratic ones with tough bureaucrats, like France or Japan, never gave much leeway to pesky locals.

Planning aside, nuclear plants can be hard to finance, since they cost more and take longer to build than coal- or gas-fired units. In countries with state power firms, like China, the government can stump up the money or use its clout to reduce borrowing costs. A handful of firms, such as Electricité de France, are big and profitable enough to pay for new reactors out of regular income. Other solutions show more imagination: a Finnish consortium that is buying a new reactor consists of utilities and power users committed to buying the plant's output at cost.

The Finnish and British governments say they will not subsidise nuclear power. America's has no such qualms; in addition to the insurance against delays, it is helping to bear the cost of the permitting process and offering tax breaks on power produced by new plants. Such enthusiasm reflects the hope that nuclear power can wean America off imported fossil fuels. Elsewhere, countries that fear foreign control of their energy supply tend to be pro-nuclear. Ukraine, site of the Chernobyl catastrophe, is busily

making more nuclear plants to cut its reliance on Russian gas.

In most of western Europe, feelings are more ambivalent. Many countries have cut nuclear output, or made plans to do so, and are only reluctantly reviewing that stance in the light of global warming. Indeed, some ecologists, such as Mike Townsley of Greenpeace, a lobby group, say talk of a renaissance is overdone. If there is a rebirth, it may lie in the mere fact that nuclear power is being discussed, not in any consensus about its merits.

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Climate change

How to make them feel the heat

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The hosts of a UN talk-in are left wondering how much their visitors care

THE effects of climate change will be felt sooner than most people think, especially in parts of the world where landscapes and livelihoods are already fragile—while the pace of diplomatic efforts to tackle the problem is glacial.

That, at least, would be a fair conclusion for the Kenyan hosts to draw as they clear up the mess after the latest of the world's annual deliberations on how to curb heat-trapping emissions—and contemplate a future that looks bleak for semi-arid places like the Horn of Africa.

Reuters

Kenya's floods: a sign of things to come?

The 180 countries which conferred in Nairobi reached no agreement on how to cut greenhouse-gas emissions after 2012, when the Kyoto protocol expires. They merely agreed to agree in 2008. Britain's environment minister, David Miliband, shrugged sadly at this failure of political will. Finance and foreign ministers would have been needed to cut a real deal, and hardly any of them bothered to attend the meeting.

America's delegation was defensive. China was poorly represented. India, backed by the Saudi petroleum ministry among others, was outraged at suggestions that it should start thinking about capping its own emissions.

For the hosts, the most sobering sessions were those examining the effects of climate change on dryish parts of Asia, Latin America and Africa. While the rate of warming may be higher in the Arctic and Antarctic, it is subsistence farmers in poor places who stand to lose most. Africa's reliance on rain-fed farming makes it acutely vulnerable.

The effect on food staples in the Sahel and Horn of Africa could be catastrophic. Harvests of millet, sorghum and maize may fall even as populations rise. Even a modest warming of 2°C will mean more evaporation and less water in lakes, watering holes and stream beds. A predicted rise in the volatility of rainfall may have worse effects. There will be more droughts and more floods (like the inundation east Africa is now facing), one exacerbating the other: animals overgraze in dry spells, letting more topsoil wash away during heavy rains.

Will anything make rich countries focus on these risks? Just possibly, a recent warning from Osama bin Laden that the Horn of Africa is a “jihadist front”, along with Iraq and Afghanistan.

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Nuclear fuel

The more there is, the bigger the risk

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Why proliferation gets harder to stop

Get article background

IF THE nuclear industry is to flourish, as engineering firms, some governments and even a few greens now want, it must be secure from those who would misuse the uranium and plutonium technologies needed for civilian nuclear fuel and waste disposal to make bombs instead. Should it ever emerge that a rogue state, or terrorist group, has used illegally diverted material to make and let off a crude nuclear weapon, or even a less spectacular “dirty” radiological device, the power industry's hope of a nuclear future would be among the many victims.

Fear of fuel diversion is growing, along with fear of proliferation in general. North Korea did a rogue-bomb test last month; suspicion of Iran's nuclear plans is mounting; al-Qaeda is seeking nuclear material. Meanwhile the apostles of nuclear power confer at the International Atomic Energy Agency (IAEA, the UN's nuclear guardian) and elsewhere, to work out how to secure nuclear material and know-how.

Imagine the reaction, in this tense climate, if it was found that enough plutonium for several crude bombs had gone missing. Welcome to the so-called “back end” of nuclear-fuel management, where that much and more has collectively been “lost” at one time or another over the past decade at plants in Britain and France that separate plutonium from spent reactor fuel. (Japan has had similar discrepancies at a plant that blends plutonium with uranium to make mixed-oxide fuel.)

On closer examination, such losses usually reflect bad book-keeping. But inspection of furred-up pipes and recalculations to make the books balance can take months. The sheer volume of material being processed makes it impossible to be sure none has been pilfered: the IAEA says it takes only 8kg (17.6lb) of plutonium and 25kg of highly enriched uranium to make a bomb; others say less. And inspectors cannot always count on co-operation.

Like a pantomime horse, the nuclear industry has an ugly “front end” too. The cascades of centrifuge machines spun to enrich uranium gas to 5% or so, for use as fuel in civilian reactors, can—with tinkering—enrich to the 90% needed for bombs. And it is tough to stop small but militarily useful amounts of uranium being diverted for illicit purposes. Hence the fears over Iran, which claims to need an industrial-scale enrichment plant without having a single working power reactor.

Fears of rogue proliferators, and talk of a clampdown on uranium and plutonium technologies—claimed by some as a “right” under the Non-Proliferation Treaty—have caused mutterings from Argentina, Kazakhstan, South Africa and Australia that they may seek their own enrichment technology. But this makes no economic sense, says Henry Sokolski of the Non-Proliferation Policy Education Centre, a think-tank: without a lot of power reactors, it is cheaper to buy fuel than make it.

In a bid to capitalise on that, and expose those whose nuclear plans are less peaceful than they claim, some people advocate a fuel bank, managed by the IAEA, to ensure access to reactor fuel at reasonable prices in case of market disruption. Warren Buffett, a financier, has allowed the Nuclear Threat Initiative, an NGO, to pledge $50m of his money to help set up such a bank: he wants others to contribute in cash or kind (to the tune of another $100m at least). Those drawing fuel would have to agree to strict verification and to return spent fuel for oversight.

Britain, France, Germany, the Netherlands, Russia and America have jointly proposed a similar mechanism (Britain is keen on using “enrichment bonds”). Russia is setting up an enrichment centre,

letting others share the product and the profits, but not the technology. Kazakhstan likes the idea but Iran has so far resisted.

America has also mooted a futuristic Global Nuclear Energy Partnership: those vowing not to build uranium or plutonium plants would be promised long-term fuel supply and waste handling. A small group of countries with advanced nuclear technologies would co-operate to develop new reactor designs and waste-handling methods, reducing proliferation risks. But critics call GNEP a costly gamble on unproven science that will harm the cause of nuclear energy and do little to combat proliferation. Even in a time of climate change, it's hard to be a nuclear booster.

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Nuclear fusion

A white-hot elephant

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A costly project brings countries together, but not many nuclei

Get article background

GETTING power from nuclear fusion seems a great idea. The fuel is abundant, the process safe and the waste quite benign. Lots of power could be produced; the sun itself is powered by nuclear fusion. But getting more useful energy out of a machine than you put in has eluded the wit of man for 50 years—and a new move to throw more money at the problem marks political, not scientific, progress.

The project to build and run an International Thermonuclear Experimental Reactor (ITER) is 21 years old. It was proposed in 1985 by Mikhail Gorbachev, then the Soviet leader, who put the idea of working together on fusion to his American counterpart, Ronald Reagan. In its lofty origins the project resembles the International Space Station. There are more countries to share the costs now but the price tag is still substantial: this week, America, the European Union, Japan, Russia, China, India and South Korea signed a deal in Paris for a fusion machine that will cost $12 billion.

This collaborative effort has been dogged by politics. Russia's participation staggered on after the Soviet collapse; America quit in 1999, saying it was too expensive, before returning in 2003. Canada signed up in 2001, when it seemed a machine might be built on its soil. When this hope faded, in 2003, Canada left. Potential sites were duly found in France and Japan.

The subsequent wrangling looked like a proxy for rows over the war in Iraq. America backed the placing of the machine in Japan, which supported the invasion. Russia and China favoured France which, like them, opposed the onslaught. That the site finally chosen was Cadarache, in France, owes much to European support for a Japanese diplomat and engineer as the director-general of ITER.

That new boss, Kaname Ikeda, will oversee a fresh effort to find how feasible it is to make power with fusion—using the energy released when two light atomic nuclei are brought together to make a heavier one. The fuel, a heavy isotope of hydrogen called deuterium, is present in ordinary water; ITER plans to use seawater. Unlike nuclear fission, the concept behind today's nuclear reactors, the process generates no durable radioactive waste, though the walls of the chamber where the reactions take place stay radioactive for decades.

Yet fusion involves huge difficulties. A big volume of gas must be heated to a temperature above that found at the centre of the sun. The gas must be prevented from touching the reactor's wall by confining it, using a powerful magnetic field. The energy released in fusion is carried mostly by neutrons, a type of subatomic particle that has no electric charge and hence cannot be confined by the magnetic field. Ensuring the reactor wall can cope with being bombarded by neutrons is another problem.

The expense is huge, too. Construction of the 500-megawatt reactor is expected to cost $6 billion and take a decade. Another $6 billion will be needed to operate it for 20 years. Even then the reactor will not be used to generate power. For safety reasons, the excess thermal energy produced will be released through cooling towers rather than harnessed to make electricity. So a commercial reactor is at least 30 years away, as remote a prospect as fusion wonks said it was 50 years ago. And the problem it aims to solve—safely producing power with renewable resources—is being tackled more cheaply in other ways.

Like the International Space Station, ITER had its roots in superpower politics. As with the Space Station, the scientific benefits may not justify the price.

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Carmaking in China

The fast and the furious

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AP

Are Chinese carmakers trying to do too much, too soon?

CHINA's carmakers are feeling smug. As they showed off their latest designs amid the chaos of the Beijing Auto Show this week, crowds swarmed around the stands for the unveiling of each new model. Chinese firms felt confident enough to show off not just their newest low-cost runabouts, but also luxury and sports models, “concept” cars showing possible future designs and even a few hybrid and electric vehicles. Local carmakers in the world's fastest-growing and third-biggest car market would appear to have come of age. But like a teenager trying to behave like an adult too soon, the rush for high-tech street-cred may not be so wise.

Almost every international carmaker in the world has moved into China in the past decade, and they have been surprised to discover that their toughest competitors are the upstart local firms. Until recently many Chinese carmakers built thinly disguised copies of vehicles made by Volkswagen, General Motors and Toyota. But in the past few years things have changed. In preparation for a push overseas, local firms such as Chery, Great Wall and Geely have proved that they can develop their own vehicles too. By buying designs from international specialists and installing fancy robotic production lines, they have been able to launch a wide variety of their own cars. More than 100 new models will be introduced in China this year.

These efforts have brought considerable success. In the first ten months of this year 5.8m cars were sold in China, up 26% over the same period last year—and Chinese carmakers captured 27% of the market. They will also export 75,000 vehicles this year to over 100 countries. But what most worries foreign carmakers is the Chinese firms' ultra-low prices. The latest Shanghai Maple, for example, with leather seats, anti-lock brakes, air conditioning and a two-year warranty, costs a mere $6,500. Foreign firms grumble that they cannot even buy the steel needed to make a car for that price.

How much of this miracle is the result of good business sense—rather than the special treatment granted to local firms—is not entirely clear. A lot of the early technology was borrowed. The government also offered support to fledging firms via direct investments and guaranteed loans. Universities provided technical help, especially in the development of expensive engines. The authorities even considered introducing a law that would mandate a 50% market share for local firms by 2010. Future legislation is likely to force foreign firms to do more research and development in conjunction with Chinese partners, to ensure continued access to cutting-edge engineering skills. So there has been support from the top. Yet this is arguably no different from the sort of support given to Japanese carmakers 40 years ago, or to

South Korean firms 20 years later.

What is different in China is the pace of development—and therein lies the concern. Is it possible that China's local carmakers have grown so quickly that they have not developed the necessary depth of skills? In a market where buyers are unashamedly experimental, brands have little value so far, except in the luxury segment. For most buyers cost is more important. But consumers are beginning to discover the consequences. As carmakers have churned out ever more cars, quality has deteriorated.

According to the latest China Automobile Customer Satisfaction Index, the number of faults per 100 cars made in China rose from 246 in 2005 to 338 this year. Four out of five cars now experience a problem in the first six months of ownership. But with average retail prices falling by RMB10,000 ($1,250) a year, producers are racing to cut costs, not improve quality. Intense competition is also forcing them to accelerate development cycles. Carmakers acknowledge that this means they are being forced to use lower quality materials and spend less time on testing. So reliability is likely to deteriorate further.

Stepping on the brake

These problems have already delayed the Chinese carmakers' ambitious plans to build export sales in the developed world. Instead, the Chinese cars exported today mostly go to Africa, south-east Asia and the Middle East, where expectations are lower and price matters more. The big push into the developed markets by Chery and Geely planned for 2007 has now been delayed until 2008 or later, and plans to launch hybrid petrol-electric cars have also been put back.

Many foreign firms have looked at the successes scored by China's carmakers in the past few years and quietly sighed with exasperation. Although foreign firms have enjoyed soaring sales, they feel disadvantaged by the support local firms have received and hobbled by legislation that required them to enter joint ventures with firms that were also their competitors.

Yet the battle for China's car market is not over. Foreign firms should benefit in the coming years as the market matures, buyers begin to value brands and quality, and a second-hand market develops so that residual values can be measured.

Local carmakers in Japan and South Korea gradually came to dominate their domestic markets through a combination of cost competitiveness, nationalistic buying and technological leadership. Today, Japan's Toyota and South Korea's Hyundai make some of the most advanced, reliable, high-quality cars in the world. By pushing too fast, China's domestic carmakers are putting their current market dominance at risk. They have progressed quickly thanks to government support and undemanding, cost-conscious consumers. As buyers begin to pay more attention to the reliability and resale value of their cars, their loyalties are likely to change. Today's success may yet prove costly tomorrow.

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Mining in Afghanistan

Copper bottomed?

Nov 23rd 2006 | KABUL AND KARKAR MINE, BAGHLAN
From The Economist print edition

The Afghan government has grand plans to develop the mining industry

Reuters

Plenty more where that came from

A MILE below the surface in the Karkar coalmine in the Afghan province of Baghlan, the miners toil amid the ominous sound of cracking and splintering wood. The state-run mine was founded in 1939 but relies on medieval technology. There is no electrical cutting equipment, so soot-covered men work with pickaxes. And ever since the steel roof-supports ran out a decade ago, wooden ones have been used instead. But they do not last long under the subterranean pressure. “We fear the collapse of the galleries above all else,” says Latif, one of the mine's engineers. Each pine log must be replaced every three days. Accidents are a routine occurrence.

Such is the current state of the mining industry in Afghanistan, which has around 200 mines, some of which are still under the control of local warlords. Yet mining is now regarded as the impoverished country's best prospect for economic development. Research carried out in the 1970s by Soviet geologists, rescued from a burning government building during the country's civil war, has been checked and expanded upon by a British survey group over the past three years. It details Afghanistan's “tremendous mineral wealth”, says Jim Yeager, an American consultant who advises the Afghan ministry of mines.

The joint British-Afghan survey found significant deposits of natural gas, petroleum and coal; copper, chromite, talc, bartyes, sulphur, gold, lead, zinc, iron ore and salt; and precious and semi-precious stones including high-quality rubies, emeralds and much of the world's supply of lapis lazuli (pictured). The country also has a new set of mining laws. Spokesmen for the ministry of mines dreamily speculate that Afghanistan could be self-sufficient in energy within 15 years.

The most viable prospect is the Aynak copper deposit, which sits 30km (19 miles) south of Kabul beneath an old al-Qaeda training camp. Surveys suggest that it consists of at least 240m tonnes at a purity of 2.3%, which would make it a world-class deposit. It is only medium-sized, but the geological make-up of the area is similar to that of the Zambian copper belt. So there may be further undiscovered deposits nearby. Given the current sky-high price of copper, Aynak could be worth around $30 billion. Exploitation of the deposit would probably create 2,000 mining jobs and a further 45,000-60,000 support jobs. Local tribal elders are goggle-eyed at the prospect. Last week the government announced a short-list of nine interested mining firms from countries including China, India, Australia and America.

But not everyone is convinced. To develop Aynak in accordance with international guidelines would cost around $1 billion, and it would be at least six years, and probably closer to ten, before production could begin. Promises being made by some bidders to begin extraction within 18 months are regarded as unreliable and even irresponsible by foreign experts.

The security situation at Aynak is better than at many other potential mining sites, but there are other problems. Water is scarce and inspires fierce tribal rivalry. The mine would also need at least 50 megawatts of power—but even nearby Kabul has only a single 19-megawatt generator, able to power the city for four hours every other day. And although royalties on copper mines above 4% are regarded as punitive by international standards, government officials have been talking about 15%. Finally, the copper price is now around $7,000 per tonne, but five years ago it was $1,300, making the whole industry unprofitable. Mining in Afghanistan looks like a gamble in more ways than one.

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CSN v Tata

Steel the prize

Nov 23rd 2006 | SÃO PAULO
From The Economist print edition

Why the Brazilians are taking on the Indians to grab the Anglo-Dutch

IT IS no longer unusual for enterprises from poor countries to gain entrée into rich ones through takeovers. But the battle between Tata, an Indian conglomerate, and CSN, a Brazilian steelmaker, for Corus, an Anglo-Dutch company that absorbed what was once British Steel, could be the first big punch-up between two emerging-market firms for a rich-world asset.

Tata and Corus had already agreed a takeover deal when CSN barged in on November 17th. Its £4.3 billion ($8.1 billion) “potential offer”, which will be made formal if Corus's board co-operates and due diligence goes well, is 4% higher than Tata's. If consummated, the union would—like Tata's proposed match—create one of the world's five biggest steel companies, with $22 billion in sales.

Both Tata and CSN are the number two steelmakers in their home markets and are highly profitable. But steelmakers are puny compared with their main suppliers and customers. They worry that prices will fall when China becomes a big exporter. Acquiring Corus, one of the few large producers of flat steel without a controlling shareholder, would let them bulk up and provide a way into Europe. (Evraz of Russia agreed to buy America's Oregon Steel this week for similar reasons.)

Just as Tata is expanding outside India, so CSN threatens to outgrow Brazil. It plans to boost production of semi-finished steel slabs from 5m to 14m tonnes. Benjamin Steinbruch, its aggressive boss, is looking for outlets. CSN has made small acquisitions in America and Portugal, but its bid for Wheeling-Pittsburgh, an American maker of flat rolled steel, was rebuffed last week by Wheeling's unions. So now CSN has gone for Corus.

The aim, says Mr Steinbruch, is to make Corus “the most competitive steelworks in Europe”. CSN's main contribution will be the supply of cheap iron ore and, later on, steel slabs. “They're going to be able to lower Corus's cost structure quite dramatically,” says Joe Bormann of Fitch, a credit-rating agency. CSN will benefit from Corus's research and strength in areas where CSN is weak, such as steel for shipping and railway tracks. “More than two-thirds of the products Corus makes, we don't,” notes Mr Steinbruch.

Sensible as this sounds, CSN's shares fell 6% after it approached Corus. The offer looks expensive, says Patrick Conrad of Santander Investment in São Paulo, and will become more so if Tata and CSN engage in a bidding war. If CSN prevails, the merged firm's combined net debt will more than double as a share of cashflow.

Mr Steinbruch calls investors' concerns “superficial”. The acquisition would resemble a leveraged buy-out, in which most of the new debt would be secured by Corus's cashflow and assets rather than CSN's. If necessary CSN could reduce debt by selling off minority stakes in its mines, power plants and other assets.

Just three Brazilian enterprises have enough foreign assets to rank among the top 100 emerging-market multinationals. But buoyant commodity prices and easy finance are strengthening them. CVRD became the world's second-largest mining company in October by acquiring Inco, a nickel producer in Canada. Gerdau, a specialist steelmaker, has been buying smallish American and European mills and may now go after Germany's Thüringen. CSN would love to join the list, but may face a bruising fight for the privilege.

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Italy's sofa cluster

Not exactly sitting pretty

Nov 23rd 2006 | MATERA
From The Economist print edition

Furniture-makers in Italy grapple with growing competition from China

A more affordable type of Ferrari

FURNITURE may not sound terribly exciting as an investment tip, but investors rushed to buy shares in Poltrona Frau, a luxury furniture-maker based in central Italy, when they began trading on Milan's stockmarket on November 15th. The share price jumped by nearly 40% on the first day, even though the company made just €1m ($1.2m) profit on revenues of €183m last year. But perhaps speedy results should be expected from a firm where the main shareholder, Luca Cordero di Montezemolo, is also the boss of Ferrari.

Poltrona Frau has managed to persuade investors that a luxury brand can protect it from the troubles that assail the Italian furniture industry. Just as some fashion-industry firms have improved their prospects by going upmarket, so Poltrona Frau intends to bring glamour to its customers' living rooms through co-branding initiatives with Ferrari (that should be easy to arrange), LVMH and Dior. Its target customers are high-spenders in Japan, Germany, America and the Arab world.

The spin is impressive, the reality less certain. Before Poltrona Frau went public last week, it issued a prospectus containing seven pages of risk factors, including warnings about potential difficulties in enforcing intellectual-property rights and the highly competitive nature of the industry.

Both of those are code for China. “Chinese competition and a weakening dollar have made the past four years terribly painful,” says Pasquale Natuzzi, whose firm is the biggest in the furniture-making cluster that sprang up around the south-eastern town of Matera in the 1960s. Around half of Natuzzi's sales are in America, where prices of high-quality sofas and armchairs have tumbled. In 2002 it made €91m profit on sales of €805m; last year it lost €15m on sales of €670m.

Like many other local firms, Natuzzi has had to lay off workers at its factories near Matera. “Five years ago the cluster had around 400 firms and employed more than 11,000 people. Probably one-third of those businesses have shut,” says Saverio Calia, chairman of the local industrialists. But he expects the situation to get even worse over the next few years, with more closures and job losses, as well as temporary lay-offs under a national scheme to help firms in difficulty. Mr Calia's own firm has temporarily laid off about one-third of its 600-strong workforce.

Matera's sofa cluster is suffering because its firms did not foresee the threat to their traditional, low-technology business of making medium- to high-quality leather furniture posed by low-wage economies in the developing world. “Labour costs in China are one-tenth of ours,” says Eustachio Nicoletti, managing director of his family's business, “and Chinese workers are far more flexible.” Mr Calia says the quality of Chinese furniture is just as good as Italian, and the Chinese copy Italian designs quickly and accurately.

Mr Natuzzi's firm has led the way in responding to the Chinese challenge. A few years ago it set up its own manufacturing operation in China. Other Italian firms have since followed, including Nicoletti in 2003 and Calia Italia in 2004. In addition, the Italian firms have broadened their product ranges, moving beyond leather into fabric upholstery and making accessories too. And following the lead of the clothing industry, the furniture-makers have done their best to build up their brands and move upmarket: Natuzzi has always sold its sofas as “affordable luxury”.

But will it work? Poltrona Frau is not part of the Matera cluster, but it faces the same challenges, and has managed to convince investors that a luxury brand is the best defence against its Chinese competitors. For Italy's furniture-makers one thing is clear: sitting still is not an option.

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Online advertising

Trouble clicks

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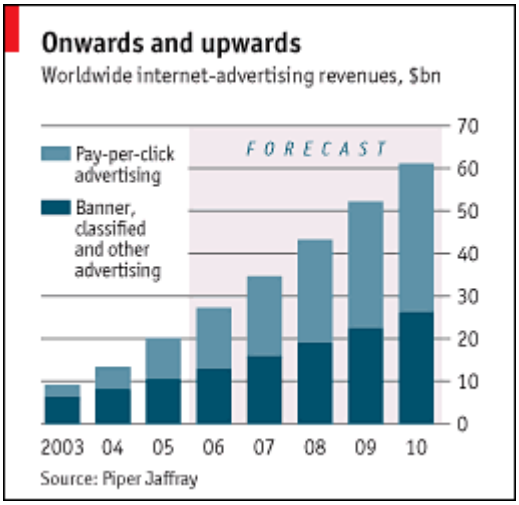
“Click fraud” could undermine the boom in online advertising



INTERNET advertising is booming. The industry has gone from $9.6 billion in revenue in 2001 to $27 billion this year, according to Piper Jaffray, an investment bank. And it is still early days. The internet accounts for only 5% of total spending on advertising, but that figure is expected to reach at least 20% in the next few years. The single largest category within this flourishing industry, accounting for nearly half of all spending, is “pay-per-click” advertising, which is used by firms both large and small to promote their wares.

It works like this. Advertisers bid on keywords that they believe potential customers will be interested in. This enables internet firms such as Google, the market leader, and Yahoo!, its smaller rival, to display advertisements alongside the results of internet searches. Somebody searching for a particular type of wine, for example, might see advertisements from wine merchants. Google, Yahoo! and other firms also place ads on affiliates' websites—so wine merchants' advertisements might also appear on a wine-appreciation site. The advertiser pays only when a consumer clicks on an ad; the owner of the website where the ad was displayed then receives a small commission.

The benefits of the pay-per-click approach over traditional advertising (television, radio, print and billboards) are obvious. Since advertisers pay only to reach the small subset who actually respond to an advertisement, the quality of the leads generated is very high, and advertisers are prepared to pay accordingly. The price per click varies from $0.10 to as much as $30, depending on the keyword, though the average is around $0.50. “Mesothelioma”, for instance, the name of an asbestos-related illness, is an especially valuable keyword, because lawyers are prepared to pay a lot to make contact with sufferers in the hope of representing them in a lucrative compensation lawsuit. Google made most of its $6.1 billion in revenue last year from pay-per-click advertising.

But as pay-per-click advertising has grown into a huge industry, concern has mounted over so-called “click fraud”—bogus clicks that do not come from genuinely interested customers. It takes two main forms. If you click repeatedly on the advertisements on your own website, or get other people or machines to do so on your behalf, you can generate a stream of bogus commissions. Click fraud can also be used by one company against another: clicking on a rival firm's advertisements can saddle it with a huge bill. Bogus clicks are thought to account for around 10% of all click traffic, though nobody knows for sure.

Bill Gross, the entrepreneur who pioneered the pay-per-click model back in 1998, was aware of the problem even then. (Yahoo! subsequently acquired his firm, known at the time as Overture.) He installed a three-layered defence system: a filter to weed out clicks from known fraudsters at the outset, statisticians and software to spot suspicious click patterns, and co-operation with advertisers to enable them to analyse the leads generated and sound the alarm if necessary.

But generally the industry adopted a rather cavalier attitude to click fraud. Eric Schmidt, the boss of Google, caused uproar a few months ago when he seemed to suggest that the “perfect economic solution” to click fraud was to “let it happen”. He was responding to a theoretical question during a debate at Stanford University, but his response reinforced the perception that Google had higher priorities than addressing the problem.

Such a flippant attitude has not gone down well with advertisers, who are up in arms about the problem. Some have even resorted to legal action. Google reached a settlement in March with Lane's Gifts and Collectibles, a gift shop based in Arkansas, and agreed to offer refunds to advertisers who claim they have been charged for bogus clicks. Such refunds are capped at $90m, however, so many observers think Google got off lightly. And in June Yahoo! promised to intensify its efforts to fight click fraud as part of a settlement with CheckMate, a fraud-detection firm. As well as offering refunds for clicks determined to be fraudulent, Yahoo! agreed to appoint a “traffic-quality advocate” to voice advertisers' concerns within the company.

In the wake of these legal challenges, Google and Yahoo! recently joined a working group at the Interactive Advertising Bureau (IAB), a trade association, which will establish standards for pay-per-click advertising, including the introduction of industry-funded auditing and certification, by the middle of 2007. “I believe Google and Yahoo! are now taking the issue very seriously,” says David Jones, chief executive of Euro RSCG, an advertising company. But Rishad Tobaccowala, head of innovation at Publicis, one of the world's biggest advertising groups, says it is too early to say whether the measures being taken against click fraud will be enough to satisfy advertisers.

A few months ago Mr Gross pioneered an alternative to the pay-per-click model. In February Snap, a search engine backed by Mr Gross, launched “pay-per-action”, a new model in which advertisers pay only if a click on an ad is followed by an action such as a purchase or a download. Google is testing a similar model and Turn.com, another ad network, adopted the pay-per-action model a few weeks ago.

Might this put an end to click fraud? Don't bet on it, says Mike Zeman at Starcom, an advertising agency. Pay-per-action will be a niche, he predicts, since converting a click into an action depends on a variety of factors such as the ease of use of the advertiser's website. Google and its peers will be reluctant to be so dependent on factors outside their control. But Mr Tobaccowala thinks pay-per-action could become a real alternative to pay-per-click. As bigger companies spend more on internet advertising, they will demand more accountability and a wider range of options, he says. At the very least, that means clamping down on click fraud; but it also presents an opportunity for entrepreneurs to invent new models that are less vulnerable to abuse.

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Corporate manifestos

Yahoo!'s peanut-butter problem

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A disturbing trend in the literary genre of leaked corporate memos

WRITING a manifesto good enough to cause trouble has been difficult ever since Karl Marx and Friedrich Engels set the bar rather high in 1848. So today's corporate bosses tend to call their manifestos "memos" instead. The genre has thrived in recent years. A decade ago, Microsoft's Bill Gates penned a classic, "the internet tidal wave". Last year, Ray Ozzie, Mr Gates's successor as Microsoft's software boss, did quite well with "the internet services disruption", a thoughtful treatise as such things go.

The latest example from Yahoo!, the world's largest internet company by some measures, reverses the trend. Brad Garlinghouse, a manager just senior enough to be noteworthy, has put forth a "Peanut Butter Manifesto", which was helpfully "leaked" to the *Wall Street Journal*. It was meant as part St Crispin's Day speech to rally the troops, part corporate analysis of Yahoo!'s many troubles, part turnaround plan—and, it seems, part publicity stunt. But it turned out to be a redundant series of platitudes, split infinitives, clichés and mixed metaphors.

Yahoo!'s problems—it is lagging badly behind Google in advertising growth and market valuation—stem from a lack of focus, which inspires Mr Garlinghouse to evoke the metaphor of thinly spread peanut butter. But not, however, to the exclusion of other staples of the memo tradition, such as "silos", "analysis paralysis", "dropped balls", and so forth. Mr Garlinghouse briefly gets specific, suggesting that 15-20% of Yahoo!'s staff should be laid off, but then returns to his theme, namely that "the smoothly spread peanut butter needs to turn into a deliberately sculpted strategy" (sic).

He repeatedly proclaims his loyalty: "I love Yahoo! I'm proud to admit that I bleed purple and yellow. I'm proud to admit that I shaved a Y in the back of my head." He then signs off with a final exhortation: "Catch the balls. And stop eating peanut butter." Is it any wonder that Yahoo! is struggling?

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Face value

The universal diarist

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Mena Trott of Six Apart is at the forefront of the shift from mass media to “intimate media”

Six Apart

IT ALL began five years ago with a blog entry about a banjo. Mena Trott had recently graduated as an English major from college and, at 23, was living as an under-employed designer with her husband Ben in San Francisco, passing her time by keeping a personal online diary. Called Dollarshort, it was a blog about her childhood, her pets and that sort of thing. One day, on a girly whim, she wrote that she wanted to buy a banjo but that her husband, ever the “tyrant”, wouldn't let her. Mena's friends and family, knowing that “Ben is the sweetest guy in the world”, recognised the humour, says Ms Trott. But all sorts of strangers suddenly blogged back with angry feminist advice, advising her to get a separate bank account, to tell off her bullying husband, and even to leave him. Ms Trott was livid. “Why can't people take a joke, and who are these people anyway?” she wondered.

It was the seed of a profound insight: that the era of mass media was ending and a new era of “intimate media” had begun. Mr Trott had written some software to make it easier for his wife to update her blog, and they realised that other people might find it useful too. It was an instant success upon its release onto the internet in 2001, and the Trotts have since built their company, called Six Apart (because their birthdays are six days apart), into the largest independent provider of blogging tools and hosting services. Ms Trott is Six Apart's president and public face, while Mr Trott, who is shy and retiring, runs the technical side of things and seasoned executives handle the management. Six Apart's flagship products, Movable Type and TypePad, are popular among “power bloggers” with large audiences, and its third product, LiveJournal, is big among teenage girls who blog for their friends. Collectively, Six Apart's products are used by over 30m bloggers around the world.

These days, however, the Trotts are most excited about their newest product, Vox, which was launched last month. For if a blogging service can have a personality, then Vox has Ms Trott's. Like Ms Trott, Vox is unpretentious and accessible. By contrast with rival services, users need not worry about having to understand technical matters, such as the HTML formatting language in which web pages are encoded, in order to incorporate whizzy features into their blogs. They can upload pictures, video clips and songs with just a few clicks on a simple, colour-coded page. Also like Ms Trott, Vox celebrates the frivolous and mundane. Much of Ms Trott's personal blog, VoxTrott, is devoted to images of her beloved dog Maddy, while Mr Trott, a dilettante cook, likes to post “disgusting pictures of good food” on his blog. Many ordinary people are scared of blogging because they feel that they have nothing to say, says Ms Trott. So

her message is that “mundane is interesting; it's OK to talk about your sandwich”. To a handful of people in the world it may mean a lot.

The other thing that keeps many people from blogging is fear for their privacy, she thinks. Hence the third and most important characteristic of Vox. It is intimate. For every item on Vox—a text paragraph, a photo, a link—bloggers can determine if it is to be public or private and, if it is private, exactly who can see it. Ms Trott, for instance, keeps one part of VoxTrott for communicating only with her mother, who has an insatiable appetite for information about certain minutiae of Ms Trott's life. She also has a daily “Yay Me Update” just for herself, in which she uploads self-portraits from her mobile phone in order to preserve a chronicle of her life for her descendants—uninterrupted except for that time when she gained a bit more weight than she cared to commit to memory and conveniently forgot to post for a few days.

But despite its homely origins Six Apart is ultimately a business, so somewhere in this vision there must be money. The daunting challenge it faces is to “monetise” the product without ruining the feeling of intimacy for its users. Like most online media, Vox is funded by advertising, but “the advertising is so subtle that a lot of users don't even know where it is,” says Andrew Anker, the product manager for Vox. A blogger might, for instance, write about her favourite novels and include a link to the books on Amazon, a big online retailer. Within a small social circle, such personal recommendations are a powerful form of marketing. If somebody clicks on these links, lands on Amazon's website and completes a purchase, Amazon will share 7% of the proceeds with Six Apart. Similar arrangements exist with an online video service, and Mr Anker hopes to add deals with online music stores and other partners in future.

Putting the “me” into media

As a firm, Six Apart expects to break even only next year, and it is tiny when compared with giants such as Google, which has a rival blogging service called Blogger, or News Corp, a media conglomerate that offers blogging as one of many features on MySpace, its social-networking site. So the surprise is how well Six Apart holds its own against these industry titans. For some of the large internet companies, blogging seems “like a checkbox”, says Ms Trott—ie, something to have because it is fashionable, without caring much about it. She and her husband, however, sincerely regard blogging as a way of life.

Her commitment to the social, not just the commercial, potential of blogging has made Ms Trott an unofficial spokeswoman for the wider phenomenon of new media. Ms Trott is 29 but appears even younger; she is currently practising how to speak clearly with new braces in her mouth. And yet she increasingly has the attention of elder statesmen who are baffled by the rise of blogging and need help in “getting it”. At a big conference this year, Ms Trott regaled a large audience of digerati with her family photos and other tales. Spotting Al Gore, “the first person I ever voted for”, in the first row, she turned shy for just a moment. America's former vice-president then sat spellbound through the remainder of her speech.

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America's capital markets

Down on the street

Nov 23rd 2006 | NEW YORK
From The Economist print edition

AP

No longer can America take for granted its global superiority as a market for capital. Regulatory reform might let it keep up with the pack

DAVID CHAVERN has been looking at a photograph of hirsute twenty-somethings and fretting. The snap, from the late 1970s, shows a mop-topped Bill Gates and colleagues at what would become the world's biggest software company. Mr Chavern, a capital-markets expert at the US Chamber of Commerce, is concerned that America may no longer be very good at nurturing nascent Microsofts. “You can't help wondering about the hairy people you'll never hear of,” he muses.

He is not alone. There has been much hand-wringing over the state of America's capital markets and their ability to help businesses grow. The main worry is that despite being big, they are no longer competitive compared with the leading financial centres of Europe and Asia. This month Michael Bloomberg, New York's mayor, and Charles Schumer, a senator, showed their concern in an article dramatically titled: “To save New York, learn from London.” But some think it is already too late for Wall Street. “The days of financial hegemony are over,” says one senior American official gloomily.

As arrogance gives way to angst, America is exploring what to do. The Chamber of Commerce has held a series of “town hall meetings” and will publish a report next spring. New York has hired consultants from McKinsey to develop a new strategy. But the initiative attracting most attention is the Committee on Capital Markets Regulation (CCMR). This group of bankers, bosses, academics and investors, headed by Hal Scott, a Harvard Law School professor, is due to release its first set of recommendations on November 30th. These are likely to include scrapping or revising various regulations seen to be holding back American business.

Although the government insists it is not involved, the treasury secretary, Hank Paulson—a former head of Goldman Sachs—has offered encouragement. This week he said that the 2002 Sarbanes-Oxley act, which toughened up corporate regulation following Enron's collapse, is “being implemented in a way that may be...introducing new risks to our economy”, and forcing companies to spend more on accountants than research.

This might seem an odd time for such anxiety. After all, America's firms and banks, many of them world-class, are making record profits; Wall Street bonuses could be almost a third higher than last year's

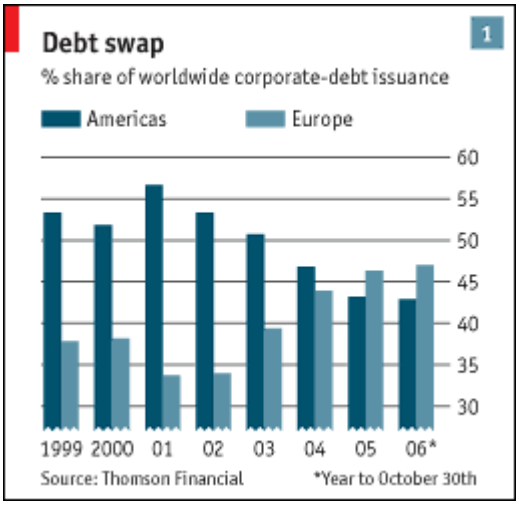
payout, itself a record; the Dow Jones Industrial Average recently hit a new high; the merger of two Chicago exchanges has cemented that city's dominance in derivatives-trading, while the New York Stock Exchange and Nasdaq are trying to buy their European rivals (see article).

At the right price

Are the fears misplaced? As capital becomes more mobile, investors worry less about where their trades take place, so long as the price is right. America's big investment banks can win business wherever in the world deals are made. And budding Microsofts can always list abroad if their local market cannot provide the financial support they need.

Yet it is not quite as simple as that. Although capital flows more easily, there are additional costs in raising money overseas. And successful financial markets create a "cluster" effect of businesses servicing them. Hence it is in America's interest to encourage a vibrant domestic capital market. And if it raises its game, other centres will have to do the same, which would benefit companies everywhere.

The advocates of reform see plenty of scope for improvement. The problem is not only Sarbanes-Oxley, they argue. Aggressive investigations by Eliot Spitzer forced the financial industry into settlements that curbed innovation as well as sharp practice. Federal regulators, desperate to keep up with the New York attorney-general (and now governor-elect), ran amok. Class-action lawyers have been allowed to wield too much power, and shareholders too little.



Whatever the causes, the numbers bear out America's slippage. It is still well ahead of Europe in hedge-fund and mutual-fund assets, securitisation, syndicated loans, and turnover in equities and exchange-traded derivatives. In all but one of these, however, the gap narrowed in 2005. Europe's corporate-debt market overtook America's last year (see chart 1), although America still leads in high-yield "junk" bonds, a distinction less dubious than it once was.

The loudest sucking sound has been in the market for initial public offerings, a crucial barometer of financial wellbeing. America's share (measured by proceeds) has collapsed since the late 1990s (see chart 2). Five years ago the New York Stock Exchange dwarfed London and Hong Kong. This year it is being beaten by both.

Luigi Zingales, an economist who sits on the CCMR, says the figures suggest something fundamental has changed. He thinks the best guide to the competitiveness of America's markets is the behaviour of overseas firms that choose to list their shares at home and abroad. Even after stripping out factors that might skew the result, America's share of these "cross-listings" has fallen substantially in the past five years. Yet of the growing number of firms which are no longer cross-listing in America, more than 90% still choose to market their shares to investors in the United States under a rule known as 144A. This gives them access to the American market, but without the full registration and compliance costs.

Domestic firms are also fleeing the glare of public markets. According to Dealogic, more of corporate America was taken out of public ownership by private-equity firms (spending $178 billion) in the first ten months of this year than in the previous five years combined. Some cite Sarbanes-Oxley and other post-Enron costs as a reason, although, to be fair, private-equity is booming in the rest of the world, too.

Wall Street's rivals are fighting harder for business. London is now the world leader in the trading of foreign-exchange and over-the-counter (off-exchange) derivatives. It is seen as the natural home for firms from emerging markets: big Russian companies prefer to list there. Goldman Sachs is beefing up its

London office, adding functions that it currently has only in New York. Hong Kong has benefited from the emergence of China and become an intra-Asian centre for capital-raising as well as trading. There is also fierce competition to lead regional financial markets, especially with a flashy bid from Dubai to dominate the Middle East and its oil money.

Open outcry

Technological innovation has made it easier for capital and those that need it to go where the best deals are available. As Messrs Bloomberg and Schumer see it, this has upset the “almost exquisite balance between regulation and entrepreneurial vigour” that helped America thrive in the last quarter of the 20th century. But Wall Street's moneymen must take some of the blame: they were slower to embrace electronic trading than those in London.

Problems were compounded with tougher immigration controls after the 2001 terrorist attacks. With work visas harder to obtain, it can be extremely difficult for the managers of a global firm to gather in New York or Chicago at short notice. Meeting in London is much easier.

Aside from the visa question, which is hard to sort because it bumps up against security issues, there are four fundamental problems underlying America's declining competitiveness:

• **Section 404**. This is the most contentious part of Sarbanes-Oxley. It requires an annual “internal control report”, which must be certified by auditors and personally signed off by two executives. It has concentrated minds, but raised costs considerably. Some say this is because it is being implemented too zealously.

Auditing expenses ballooned soon after the law was introduced. These have since fallen, but can still top several million dollars a year for a firm with a market capitalisation of $1 billion.

Because many of the costs of compliance are fixed, big companies find them easier to swallow. Some small firms cite this as a reason for listing on London's AIM market for young stocks; 50 American firms have done so, most of them since 2004. Hundreds of others are said to be considering it. Another spur has been the decline in coverage of smaller stocks since banks were forced by Mr Spitzer to tighten up their research procedures.

But Sarbanes-Oxley is not just about costs. In theory, a higher standard of corporate-governance should result in a higher valuation, since listing in a well-regulated market shows a commitment from a company that it will not abuse investors. If this premium is high enough, it will offset the costs of compliance. One study, conducted post-Sarbanes-Oxley, found that the premium placed on the value of an emerging-market firm listing in New York can reach 37%; preliminary research suggests the value of a London listing is not as high. Mr Zingales's calculations suggest that the New York premium outweighs costs for companies with a market value of more than $230m.

For the most part, reformers insist they are not out to gut Sarbanes-Oxley, but to make it more “risk-based”. This means keeping the goals largely the same but giving firms and their auditors more leeway in achieving them. That battle may already be won: the Securities and Exchange Commission (SEC), America's chief market-regulator, and the Public Company Accounting Oversight Board, which was created by Sarbanes-Oxley, have both announced reviews of Section 404, hinting strongly that the burden will be eased, especially for smaller firms. On November 16th Christopher Cox, the SEC's chairman, promised “significant changes” in coming weeks.

A more radical recommendation, unlikely to be among the changes, would be to limit prosecutions to individuals rather than companies. This would avoid a repeat of the Arthur Andersen debacle, in which the accounting firm was driven out of business after being convicted of obstructing justice in the Enron case, only for the ruling to be overturned last year by the Supreme Court.

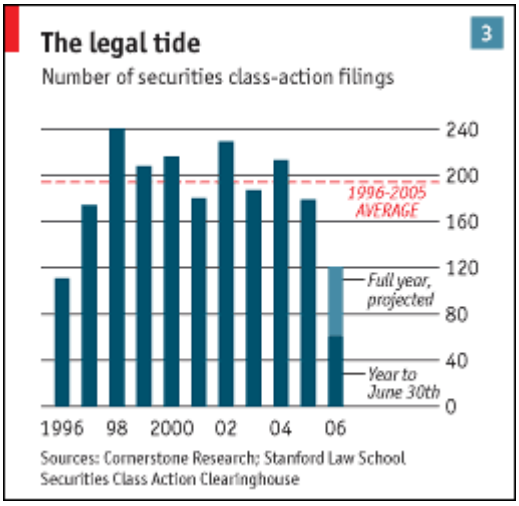
Some believe a wide-ranging rethink is needed on accounting standards. America continues to believe that its accounting rules are better than internationally accepted standards, even though studies suggest there is not a lot to choose between them. Foreign firms would be keener to list their shares in New York if they did not have to reconcile their accounts.

• **Litigation**. Many businessmen regard America's legal system, with its punitive jail terms and class-

action lotteries, even less favourably than they view Sarbanes-Oxley. “For foreign companies we're a jungle,” says a senior regulator. Asian firms, for instance, are still reluctant to risk being sued three years after China Life, an insurer, listed in New York and within days fell victim to a shareholder lawsuit. Most firms involved in mergers in America have to factor possible legal troubles into the costs of the deal, says Dick Langan of Nixon Peabody, a law firm.

By some measures, the worst may have passed—though nobody is betting on it. The tide of post-Enron cases is ebbing. Cornerstone Research reckons there will be some 120 class-action filings this year, down from 179 last year (see chart 3). Aggressive law firms have also come under scrutiny. However, damages have continued to rise, from $1.1 billion in 1999 to $3.5 billion last year (excluding the $6 billion-plus WorldCom settlement).

Infographics



Doesn't this merely show the legal system is doing its job in a country in which big rewards mean big incentives to cheat? Sensitive to such doubts—and painfully aware of the large political contributions of trial lawyers, predominantly to the resurgent Democrats—those pushing for change are, for now, eschewing a radical approach. The boldest suggestion is that damages should be agreed through arbitration, rather than awarded by juries.

•**Shareholder rights**. America may be the land of the free float, but its shareholders lack certain basic rights. For instance, they have only a limited say in electing company boards, unlike investors in Britain, and they have to contend with staggered boards (where only a fraction of the directors stands for re-election in a given year, making it impossible for a majority of shareholders to sack the board in one go). Add to that a proliferation of poison-pill takeover defences and the fact that it is boards, not shareholders, who vote on executive pay (again, unlike Britain).

• **Regulation**. There are three main areas of concern: how financial supervisors interact with the private sector; how they arrive at their decisions; and the fragmented nature of the rules. At the centre of all three sits the SEC. Once accused of being too slow to act, these days its perceived problem is hyperactivity, caused by what a senior regulator caustically calls the “Spitzerisation” of the agency.

This tough-guy approach is not entirely misplaced. The SEC has unparalleled numbers of retail investors to protect and it does not want to be outflanked by aggressive state prosecutors. But in striving to be tough, it may be losing sight of the need for markets to be efficient as well as clean.

Among the SEC's most vocal critics is Harvey Pitt, a former chairman. Most of its employees, he said recently, see it as an enforcement agency with regulatory powers, rather than the other way round. This shows up in salaries: the pay of its enforcement lawyers has shot up relative to other departments; by one estimate, over 700 of them now earn more than their chairman.

Part of the problem, says Peter Wallison of the American Enterprise Institute, is that the hard line sometimes takes on a life of its own. When wrongdoing is suspected or alleged, for instance, the SEC will open a so-called “matter under inquiry”. If this is not actively terminated within 60 days, it automatically becomes an informal investigation. Sometimes, says Mr Wallison, investigations open, and the companies involved suffer negative publicity, simply because nobody bothered to close the file.

AP

Some would like to see the SEC become more like Britain's super-regulator, the Financial Services Authority. The FSA has won plaudits for an approach based more on principles than hard rules. It prefers to nudge rather than bully. Moreover, it is widely considered to be better at analysing the potential costs and benefits of proposed regulatory changes. That may be because it employs a higher proportion of economists to lawyers.

The SEC, however, operates in a regulatory regime that is much more fragmented than in Europe. The number of federal and state bodies scrutinising a particular bit of the financial markets in America can lead to duplication and then to turf wars.

Rick Ketchum, head of regulation at the New York Stock Exchange, (and a former president of Nasdaq) says America's various regulatory bodies are now better at working with each other. But in some cases, he thinks, they might want to merge. A merger of the SEC and the Commodity Futures Trading Commission, for instance, would provide one agency to regulate the cash and derivatives markets, where boundaries are already becoming blurred.

Blowing a bigger bonus

All eyes on Capitol Hill

Whether these concerns are acted upon will depend largely, as ever, on politicians in Washington, DC. The Democrats, who retook control of Congress in the recent elections, are less likely to want to loosen financial-market laws than Republicans, and slightly more inclined to toughen up hedge-fund regulation.

That said, leading Democrats portray Sarbanes-Oxley as the other party's doing (even though it was a bipartisan bill) and may be prepared to see it tweaked. Barney Frank, a Democrat in line to run the House Financial Services Committee in the new Congress, has said he does not want to rewrite the law but would be willing to see regulatory agencies adjust their rules so that it is not applied so stringently. The CCMR also favours this milder type of non-legislative reform, because it would not require congressional approval.

But reformers must be careful not to appear to be pushing changes through the back door. Even before the CCMR's report is out, it has been denounced by some on the left as a self-interested attempt by big business and its Republican supporters to claw back lost ground now that the big post-Enron trials are largely over. Some in Washington refer to it as “the 7% committee”—a reference to the underwriting fees charged on Wall Street. Mr Scott, the committee's leader, denies any such bias.

Even if the angst is overdone, the competitive threat to America is real—as the Big Apple's hoarier financiers know only too well. They still sigh when recalling restrictions introduced in the 1960s that drove lenders and borrowers to London, where the Eurobond market promptly took off. The American government loosened the rules a decade later, but by then it was too late and London ran off with the business. This time they hope it will be different.

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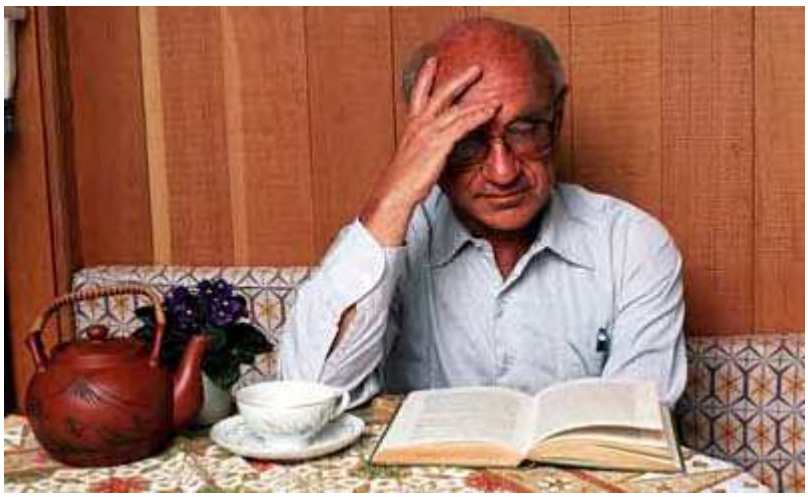
Milton Friedman

A heavyweight champ, at five foot two

Nov 23rd 2006
From The Economist print edition

Corbis



The legacy of Milton Friedman, a giant among economists

IN 1946 two American economists published a pamphlet attacking rent controls. “It was”, recalled one of them many years later, “my first taste of public controversy.” In the *American Economic Review*, no less, a critic dismissed “Roofs or Ceilings” as “a political tract”. The same reviewer gave the pair a proper savaging in a newspaper: “Economists who sign their names to drivel of this sort do no service to the profession they represent.”

The reminiscing author was Milton Friedman, who died on November 16th, aged 94. In the wake of the Great Depression and the second world war, with the Keynesian revolution still young, championing the free market was deeply unfashionable, even (or especially) among economists. Mr Friedman and kindred spirits—such as Friedrich von Hayek, author of “The Road to Serfdom”—were seen as cranks. Surely the horrors of the Depression had shown that markets were not to be trusted? The state, it was plain, should be master of the market; and, equipped with John Maynard Keynes's “General Theory”, governments should spend and borrow to keep the economy topped up and unemployment at bay.

That economists and policymakers think differently now is to a great degree Mr Friedman's achievement. He was the most influential economist of the second half of the 20th century (Keynes died in 1946), possibly of all of it. In 1998, in “Two Lucky People”, the memoir he wrote with his wife, Rose, he could claim to be “in the mainstream of thought, not, as we were 50 years ago, a derided minority”, and no one could dispute it.

Perhaps Mr Friedman became not only a great economist but also an influential one because he had a love of argument. As a boy he liked to make himself heard. He claimed to have had few memories of a school which he attended in Rahway, the New Jersey town his family had moved to when Brooklyn-born Milton was 13 months old, but he remembered getting a nickname. “I tended to talk very loud, indeed shout”; so when someone mentioned the proverb “Still water runs deep”, he was dubbed “Shallow”.

His classmates could scarcely have chosen a less apt moniker. Directly or indirectly, Mr Friedman brought about profound changes in the way his profession, politicians and the public thought of economic questions, in at least three enormously important and connected areas. In all of them his thinking was widely regarded at the outset as eccentric or worse.

The first of those areas is summed up by “Capitalism and Freedom”, the title of a book published in 1962 (see our review). To Mr Friedman, the two were inextricably intertwined: without economic freedom—capitalism—there could be no political freedom. Governments, he argued, should do little more than enforce contracts, promote competition, “provide a monetary framework” (of which more below) and protect the “irresponsible, whether madman or child”.

Freedom fighter

To show where Mr Friedman thought the limit of the state should lie, the book lists 14 activities, then undertaken by government in America, “that cannot...validly be justified” by the principles it lays out. These include price supports for farming; tariffs and import quotas; rent control; minimum wages; “detailed regulation of industries”, including banks; forcing pensioners to buy annuities; military conscription in time of peace; national parks; and the ban on carrying mail for profit.

Although the state still does a lot of this, it does less than it did; and little if any goes unquestioned. For the abolition of the draft, in particular, Mr Friedman could claim some credit: a surprise, perhaps, to those who saw him as a right-wing ideologue. Conscription—“an army of slaves”, as he put it to William Westmoreland, the army chief of staff—was illiberal: in peacetime, there was no justification for not hiring volunteers at a market wage.

Soon after becoming president, Richard Nixon set up a commission, on which Mr Friedman sat, to examine the argument for abolishing the draft. (Nixon had already been persuaded that it should go.) Conscription was ended in 1973, by which time the Vietnam war had anyway turned public opinion against it. Mr Friedman wrote, “No public-policy activity that I have ever engaged in has given me as much satisfaction as the All-Volunteer Commission.”

Second, Mr Friedman revolutionised how economists and policymakers treated money and inflation. Until he showed otherwise, post-war governments seemed able to trade off unemployment and inflation: a long-term statistical link between the two, known as the Phillips curve after the New Zealander who noted it, appeared to prove as much. By loosening monetary policy, governments could apparently buy a reduction in unemployment at the price of a little more inflation.

This, said Mr Friedman, addressing the American Economic Association as its president in 1967, was an illusion. Pumping up demand pushed down unemployment only by fooling workers into thinking that wages had risen relative to prices, making them more willing to offer their labour. Once the truth dawned and they demanded more pay, unemployment would rise back to its “natural” rate. If governments tried to push unemployment below this rate, in the long run they would succeed only in pushing inflation ever higher. Edmund Phelps, winner of this year's Nobel Prize in economics, made a similar observation at around the same time.

Mr Friedman's work was embellished by others, who modelled firms' and workers' expectations in a more sophisticated way. What really counted, though, was that he had spotted a flaw in economic orthodoxy before it was made obvious by events. In the 1970s rich economies suffered rising inflation and higher, not lower, unemployment, despite governments' efforts to inflate their way out of trouble. Mr Friedman said this was futile: governments simply had to adopt a stable monetary framework. By this he meant setting a target for the growth of the money supply, a rule known as monetarism.

His diagnosis of monetary ills and prescriptions for monetary policy long predated that presidential address. In 1963, with Anna Schwartz, he published “A Monetary History of the United States, 1867-1960”, a monumental labour. The book traced a causal relationship between the rate of monetary growth and the price level. Most eye-catching was its analysis of the Great Depression—or, as the authors called it, the Great Contraction.

The American economy shrank so much between 1929 and 1933, they argued, not because Wall Street crashed, because governments put up trade barriers or because under capitalism slumps are inevitable. No: trouble was turned into catastrophe by the Federal Reserve, which botched monetary policy, tightening when it should have loosened, thus depriving banks of liquidity when it should have been pumping money in.

Hence Mr Friedman's mistrust of independent central banks: “To paraphrase Clemenceau, money is too important to be left to the Central Bankers.” He thought they should limit inflation by targeting the rate of growth of the money supply. Aiming for inflation directly, he thought, was a mistake, because central

banks could control money more easily than prices.

Brilliant as his monetary diagnoses were, on the details of the remedy he came out on the wrong side. Controlling the money supply proved far harder in practice than in theory (notably in Britain in the 1980s: Mr Friedman grumbled that the British authorities were going about it in the wrong way). These days many central banks are not only independent of government but also have inflation targets—to which, by and large, they get pretty close. The Federal Reserve has even stopped publishing M3, a broad measure of the money supply. Writing in the *Wall Street Journal* when Alan Greenspan stood down as Fed chairman in January this year, Mr Friedman did admit that he had underestimated central bankers' abilities—or Mr Greenspan's, anyway.

Third, Mr Friedman laid the foundation of modern theories of consumption. Keynes had posited that as income rose, so would the proportion that was saved. Economic data bore this out only up to a point: though the rich had higher saving rates than the poor, aggregate saving rates did not rise as countries became richer.

Mr Friedman resolved this apparent paradox with a theory known as the permanent income hypothesis, set forth in 1957. People, he suggested, did not spend on the basis of what their income happened to be that year, but according to their “permanent income”—what they expected to have year in and year out. In a bad year, therefore, they might dip into their savings; when they had a windfall, they would not spend the lot. He called the hypothesis “embarrassingly obvious”; but in hindsight, many of the best ideas are. It was good enough, with his work on monetary analysis and stabilisation policy, to win him a Nobel Prize in 1976.

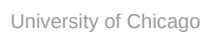
Spreading the word

Getting fellow economists to accept your ideas is one thing; transmitting them to the laity in plain English is another. He was a gifted communicator, like many prominent economists from Keynes to Paul Krugman. For 18 years he had a column in *Newsweek*. He and Mrs Friedman wrote a bestselling book, “Free to Choose”, published in 1980, based on a television series of the same name. Mrs Friedman, whom he met when they were graduate students in Chicago, was a fine economist too and a sharp editor of her husband's work. She survives him after 68 years of marriage.

Politicians were keen to listen—most obviously Ronald Reagan. Although Mr Friedman met Margaret Thatcher and her government's policies bore a monetarist mark, she was probably influenced more directly by Hayek than by him. Mr Friedman was heartened by Reagan's willingness to support the Fed's tight monetary policy in the early 1980s and by his pro-market, small-government instincts, borne out in less regulation and the tax reform of 1986. He was disappointed by developments after Reagan left office. He would have preferred Donald Rumsfeld, not George Bush senior, as Reagan's vice-president and successor. An appraisal of the Rumsfeld presidency must be left to counterfactual historians.

His most controversial listener was neither Reagan nor Lady Thatcher, but Augusto Pinochet. The Chilean dictator combined ruthless repression with a taste for free markets and monetarism. In the latter, he was advised by the “Chicago boys”, economists educated at the university where Mr Friedman was the leading light. He thought they had the economics right, but insisted that his own connection with Chile was much exaggerated by those who took him to task at demonstrations and in print. In 1975 he spent six days there, met General Pinochet once and wrote to him afterwards with his economic prescription—a conclusion, he believed, that the Chicago boys had already reached.

If Mr Friedman had a favourite economy, it was Hong Kong. Its astonishing economic success convinced him that although economic freedom was necessary for political freedom, the converse was not true: political liberty, though desirable, was not needed for economies to be free. Why, he asked, had Hong Kong thrived when Britain, which controlled it until 1997, was so statist by comparison? He greatly admired Sir John Cowperthwaite, the colony's financial secretary in the 1960s, “a Scotsman...a disciple of Adam Smith, his ancient countryman”. And how much more, Mr Friedman wondered, might America have thrived had it kept its government as small, relative to its economy, as the island entrepot had done?



That lament showed that Mr Friedman, brilliant and influential though he was, did not win all the fights he picked. Far from it. Education vouchers, which he and Mrs Friedman pushed for many years, have gained intellectual respectability but made limited headway in practice. Government spending, as a share of GDP, did not budge much even under

Reagan and is much as it was when he left office. Only last month, Mr Friedman worried in the *Wall Street Journal* that greater state intervention in Hong Kong would mean that the place “would no longer be such a shining example of economic freedom.”

Rent control, the subject of that “drivel” in 1946, is still being argued over, not least in New York City. Should you be curious about Mr Friedman's co-author, look at the photograph above. Towering next to Mr Friedman is George Stigler, the Nobel economics laureate in 1982: friends and colleagues, they stroll on the Chicago campus, no doubt discussing how to make the world a freer and happier place.

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India's economy

Too hot to handle

Nov 23rd 2006 | DELHI, HONG KONG AND MUMBAI
From The Economist print edition

Why the sizzling Indian economy is more at risk than China's

INDIA'S curries can be even hotter than the fieriest of Chinese hotpots; likewise the temperature of the two economies. Despite widespread claims that China's economy is overheating, actually India's shows more signs of boiling over.

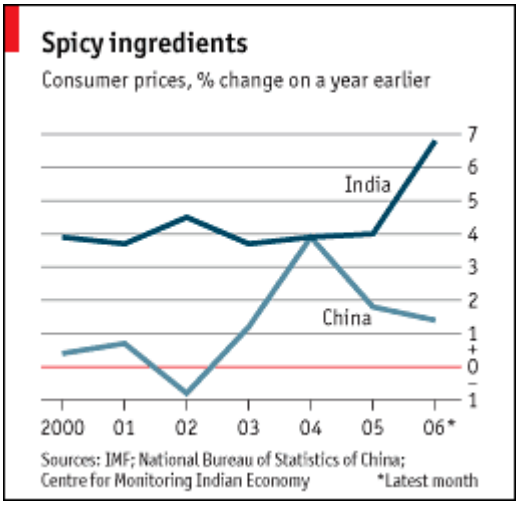
In the year to the second quarter, India's GDP grew by an impressive 8.9%, while China's more up-to-date figures show even more breathtaking growth of 10.4% in the year to the third quarter. But to judge whether an economy is too hot, one needs to compare this expansion in actual demand with potential supply, ie, the sustainable rate of growth. Despite India's growth spurt in recent years, its sustainable pace is still much lower than China's, which puts its economy more at risk of overheating and rising inflation.

China's double-digit growth may look like a danger sign but there are few of the usual troubles. Inflation is only 1.4% and China has a widening current-account surplus, which implies excess supply rather than excess demand. Nor do asset price gains look particularly excessive. Average house prices have risen by less than 6% in the past 12 months. And share prices have gained only 42% in the past four years. Even the expansion of bank credit has slowed to an annual pace of 15%, not much faster than nominal GDP growth.

In contrast, India's economy displays an alarming number of signs that things have gone too far. Consumer-price inflation has risen to almost 7% (see chart), well above Asia's average rate of 2.5%. A recent report by Robert Prior-Wandesforde at HSBC finds many other signs of excess. For example, in a survey of 600 firms by the National Council of Applied Economics Research, an astonishing 96% of firms reported that they were operating close to or above their optimal levels of capacity utilisation—the highest number ever recorded. Firms are also experiencing a serious shortage of skilled labour and wages are rocketing. Companies' total wage costs in the six months to September were 22% higher than a year earlier, compared with an average increase of around 12% in the previous four years.

India's current account has shifted to a forecast deficit of 3% of GDP this year from a surplus of 1.5% in 2003—a classic sign of excess demand. Total bank lending has expanded by 30% over the past year, close to the fastest growth on record.

India's share and housing markets also look bubbly. Draft proposals by the central bank on November 17th to cap banks' exposure to stockmarkets and curb reckless lending only mildly dampened the optimism. Share prices are almost four times their level in early 2003. India's price/earnings ratio of 20 is well above the average of 14 for all Asian emerging markets. House prices have also gone through the roof: Chetan Ahya of Morgan Stanley reckons that prices in big cities have more than doubled in the past two years. Housing loans jumped by 54% in the year to June (the latest figures available) and loans for commercial property were up by 102%.



Indian policymakers seem reluctant to admit that economic growth has exceeded its speed limit over the past three years, let alone slow it. They prefer to bask in the belief that India has become another China, able to keep growing ever faster without inflation rising. Palaniappan Chidambaram, the finance minister, has said the Indian economy will continue to grow by more than 8% in the next few years.

India's trend growth rate has almost certainly increased but it is still nowhere near as high as China's. Mr Prior-Wandesforde estimates that it is now around 6.5%, up from 5% in the late 1980s. But India's recent acceleration largely reflects a cyclical boom, thanks to loose monetary and fiscal policy. The Reserve Bank of India has raised one of its key interest rates by one and a half percentage points to 6% over the past two years, but inflation has risen by more, so real interest rates have fallen and are historically low. This makes the economy more vulnerable to a hard landing.

India cannot grow as fast as China without igniting inflation because of its lower investment rate, particularly in infrastructure, and labour bottlenecks. The latest government figures, for the year ending in March 2005, put total investment at 30% of GDP, compared with over 45% officially reported in China.

Some, however, believe that an investment boom is under way. A recent report by Surjit Bhalla of Oxus Investments, an economic research firm and hedge fund, has caused a stir by estimating that investment in the year ending in March 2007 will reach between 38% and 42% of GDP. Such investment, he says, would allow India to sustain 10% annual GDP growth.

Sadly, Mr Bhalla's estimate for investment is almost certainly too high. Unless saving (29% of GDP in 2004-05) has also surged over the past two years, an investment rate of 40% would imply a current-account deficit (which must equal the gap between saving and investment) of close to 10% of GDP. This does not square with trade figures and, in any case, it would hardly be a sign of economic health. Nor does a significant increase in saving look likely given strong consumer spending this year and only a modest fall in the government's budget deficit.

When China's President Hu Jintao held meetings with the Indian prime minister, Manmohan Singh, in Delhi this week, they agreed there was room for both countries to prosper in their overcrowded corner of the world. It is, however, wishful thinking to believe that India can now run as fast as China without a higher investment rate and a more flexible labour market. The danger of red-hot curries is that they can leave one gasping and in tears.

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Buttonwood

Monopoly money

Nov 23rd 2006
From The Economist print edition

The game of commercial-property investment has gone global

THE barbarians are at reception. No longer are private-equity firms attempting merely to turn round ailing industrial giants. This week, the Blackstone Group bid $36 billion, including debt, for Equity Office Properties Trust, America's biggest owner of office buildings. In nominal terms, it was the largest buy-out ever.

The deal showed that the commercial-property market remains piping hot, even as housing shivers. According to David Harris of Lehman Brothers, the Blackstone deal is just the latest “privatisation” of the American property market, a trend that has seen 22 companies worth more than $100 billion disappear from public ownership since the start of last year.

Such companies look ideal from the point of view of buy-out groups. Today's property barons can borrow against the value of the assets and use the cashflow from rental income to meet the interest payments. With property values rising fast in some sectors (the American office sector has returned 38% to date this year), they can afford to strike the deals above their stated asset value.

This Monopoly-like craze is not confined to America. Just as bonds and shares are freely traded across borders, property is now a global asset too. According to Jones Lang Lasalle, an estate agent, cross-border property investment in the first half of this year hit $290 billion, a 30% increase on the same period in 2005. International deals now comprise 44% of the volume of sales.

In the process, once-obscure markets have been swept into the mainstream. In 2004-05, the new entrants into the European Union benefited from the “convergence” trend as investors took advantage of high property yields. As yields fell, the same money that chased Warsaw office buildings began looking at Sofia warehouses, betting on Bulgaria's entry into the EU in 2007.

This is really all part of the same “search for yield” that has seen investors pile into other high-income assets, such as corporate bonds and emerging-market debt. Andrew Jackson of Standard Life Investments, a British fund-management company, says office yields in China have fallen from 12-13% a couple of years ago to 8% today. The gap between yields on the highest-quality properties and the second-tier sites has narrowed everywhere.

Property is a hybrid asset. It offers a high yield, giving it bond-like characteristics. But like shares (and unlike bonds), investors can expect that income to grow, at least in line with inflation.

Enthusiasm for the sector waned in the 1980s and 1990s thanks to fat stockmarket returns. Pension funds, however, are now desperate to diversify from shares and bonds, and property is benefiting from the same inflows that are boosting hedge funds and commodities. The catch—and it is a serious one—is the lack of liquidity. It takes time to buy and sell a building, and recruiting and managing tenants involves a lot of hassle.

So the key to the globalisation of the property market has been the growth of the REIT, or real-estate investment trust. These are stockmarket-quoted companies that bundle together portfolios of buildings, allowing investors to buy and sell whenever they wish. REITS have existed in America for decades but in recent years they have spread into new markets, such as Japan and Hong Kong. From January they will be available in Britain.

As the market develops, investing is becoming more sophisticated. A joint venture between GFI Group, a broker, and CB Richard Ellis, an estate agent, has introduced derivatives on property indices in America,

Europe and Hong Kong, allowing investors to hedge their portfolios and to bet on falling prices.

Not that prices are falling at the moment. The National Association of Real Estate Investment Trusts says its All-REITS index has quadrupled since the start of the decade. Of the 15 national markets monitored by IPD, a data provider, 12 achieved double-digit returns last year.

In the process, valuations now look toppy. Yields on the most commonly held American REITS are lower than those on treasury bonds, while prime British properties yield less than gilts. In both cases, enthusiasts say there is no need to worry since rents are set to rise, bringing the prospect of higher yields.

Relying on prospective valuations is exactly what stockmarket investors were forced to do in the late 1990s. And it is worth recalling that previous surges of cross-border property investment (Japan in the 1980s, for instance) did not end well. But the peak in commercial property is probably at least a year away—the barbarians still have huge war chests.

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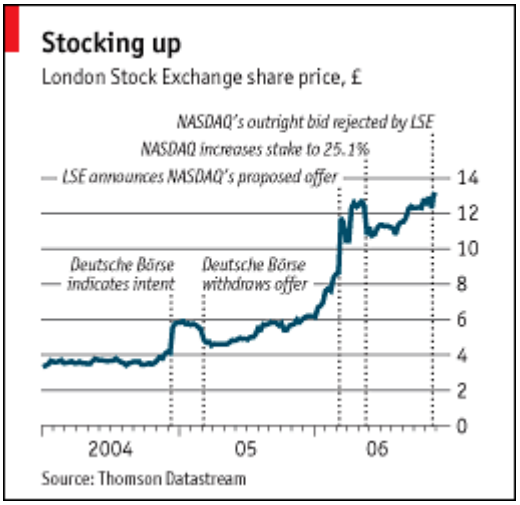
Stock exchanges

Great expectations

Nov 23rd 2006
From The Economist print edition

Pressure builds on London's exchange as it spurns another bid

IS CLARA FURSE, the London Stock Exchange's chief executive, in danger of parody as a modern Miss Havisham? Since her bid to buy Liffe, the futures exchange that she coveted, ended in tears in 2001, she appears to have hardened her heart to all of the LSE's potential companions. Ms Furse defends independence by pointing to a soaring share price (see chart) and strong results. But her will may now be tested as never before: amid new threats to exchanges across Europe, she faces possibly the LSE's most determined suitor yet.



On November 20th NASDAQ, America's leading electronic exchange, launched a second bid for the LSE, this time a “final” one. The offer, which values the LSE at about £2.7 billion ($5.1 billion), was 31% higher than its first bid in March. Although NASDAQ holds nearly 29% of the LSE, it was so tartly rebuffed that even its request to meet with the board failed.

Despite these snubs Bob Greifeld, its boss, is pressing on. He hopes other shareholders will be more open to his approach, though his current terms are probably not juicy enough. Big hedge funds and an American investment firm called Heyman Investment Associates—run by a corporate raider—have built up stakes in recent days at prices higher than NASDAQ's offer. They will resist selling at a loss. But under London's takeover rules and its own conditions, NASDAQ cannot automatically raise its bid. It can sweeten the pot only at the beckoning of the LSE's board, or if a new bidder emerges.

The Americans had hoped to sweep the exchange off its feet at a vulnerable moment. They pounced just days after seven of the world's biggest investment banks announced plans to create their own pan-European trading platform. There are legitimate questions about how solid the banks' plans are, but there is no doubt exchanges across Europe are under pressure to cut fees.

Clearly, NASDAQ also has an eye on its own doorstep. Last week its rival, the New York Stock Exchange, moved closer to clinching a transatlantic deal with Euronext when Germany's Deutsche Börse withdrew a rival offer for the pan-European exchange.

The LSE remains attractive to it for several reasons: it dominates Europe's top financial centre, has won many foreign listings to its more lightly regulated junior market (called AIM), and has some of the best trading technology in Europe. So can NASDAQ bid much higher if it is allowed to? That would depend, in part, on its lenders. Its credit rating has been cut recently because of concerns that it is overextended. For the LSE that should be a worry, but NASDAQ has some attractive traits too. Its technology is top-notch and it is good at attracting entrepreneurial firms. It would provide the LSE with greater liquidity, and would appeal to users if both exchanges can cut fees and spur cross-border trading. Unless it can offer such benefits, the LSE has a lonely future.

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Mergers and acquisitions

Partying like it's 1999

Nov 23rd 2006 | NEW YORK
From The Economist print edition

Deal-making is breaking records, but thankfully it's not déjà vu yet

IT WAS not the first day to be dubbed “Merger Monday” but it was one of the more spectacular. In a frenzied 24 hours on November 19th and 20th, firms announced some $75 billion-worth of deals. There was no let-up for ebullient bankers as the week wore on: Qantas, Australia's flag-carrying airline, said it had been approached by a group led by a bank and a private-equity firm, possibly valuing it at up to A$11 billion ($8.5 billion). Such activity has helped push the value of mergers and takeovers announced this year above the $3.33 trillion record set in 2000 at the apex of dotcom mania.

But several things distinguish this merger boom from the last one. First, deals are less skewed towards America. Its share was 46% of global volume in 2000 but is now down to 37%, slightly below Europe's, which is rising strongly, according to Dealogic, a data provider. Asia, though still far behind, is narrowing the gap. And no single industry is miles ahead of the rest, as telecoms and high-tech were last time. This week's biggest deals and bids were spread among industries as diverse as property, copper, aviation and financial exchanges.

Mergers are also structured differently these days, with cash largely replacing stock as the preferred means of payment. Cheap credit has become the market's main driver. With interest rates low, it has become easier for companies to finance themselves with debt than with equity—last time, it was the other way around.

This has fuelled the boom in buyouts, which now account for almost a fifth of all takeovers. This week's biggest bid, Blackstone's offer of $36 billion including debt for Equity Office Properties, a real-estate trust, sets a new record in the field. (The old one was only four months old.) Debt has become key even in traditional-industry consolidation: a $26 billion takeover that will create the world's largest listed copper producer, also announced this week, is structured as a leveraged reverse takeover.

The complacency bred by easy money and calm times (defaults on high-yield bonds are at their lowest level in a quarter of a century) has led to fears of a bloodbath if the market suddenly turns. Yet those who work on mergers remain sanguine. Gordon Dyal, global head of M&A at Goldman Sachs, points out that although dealmaking is at a record in dollar terms, it is much lower than six years ago as a percentage of overall stockmarket capitalisation. And corporate profits have risen by more than share prices, so earnings multiples are also less frothy than last time.

Tellingly, Goldman—the number-one merger adviser every year since the last boom—continues to see the business as “mission-critical”, in Mr Dyal's words, even though it makes much more money these days trading securities. That is partly because M&A leads to more ancillary work than it used to: with debt so ubiquitous, merging companies want loans, bonds and more complex structured finance on top of any advice they receive.

In one way the current wave has already turned nasty: there has been a proliferation of unsolicited bids. The mergers of the dotcom era were mostly love-ins: only 2% of those unveiled in 2000 were deemed hostile. By 2005 the proportion had gone up to 10% and it has continued rising this year, to 11%. In the past fortnight, US Airways has tried to woo Delta, and NASDAQ has launched its latest attempt to buy the London Stock Exchange. One reason for this increased aggression may be the growing influence of shareholders whose patience is short, notably hedge funds. Even if the market stays healthy, expect plenty of fireworks.

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World Trade Organisation

The Georgian knot

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Russia's membership of the WTO is not quite a done deal

NOBODY can fault the Georgians' courage. Judgment is another matter. America has dropped its objections to Russia's membership of the World Trade Organisation—seemingly in return for support on Iran and North Korea. But Georgia, an ardently pro-Western ex-Soviet republic, has withdrawn its own agreement with Russia and is blocking the multilateral talks needed to conclude Russia's entry into the WTO. The trade body relies on unanimity, giving vetoes even to pipsqueaks—at least in theory.

Georgia has plenty to complain about: Russia subjected it to trade sanctions and raised its gas prices in protest at the public humiliation of some Russian spies. But the real issue, according to the prime minister, Zurab Nogaideli, is another one: control of commerce into two separatist enclaves that border on Russia, South Ossetia and Abkhazia. Trade (legal and illegal) flows freely.

Georgia wants these borders either sealed or run by its own customs officials. That may be reasonable in theory but it sounds fanciful in practice. The two “frozen conflicts” have remained stubbornly unthawed for a decade, and Georgia's lack of Western support has already been bleakly exposed in recent months. Foreigners are wowed by Georgia's warp-speed economic reform—which has produced double-digit GDP growth—but dismayed by its erratic and hot-headed politics and diplomacy.

America laments Georgia's tactics. It wants Russia in the WTO, which will help speed Ukraine, a country that it is trying to coax back into a pro-Western stance, along the same path. “America and the EU will stamp Georgia into the ground on this,” says a government adviser. “They seem to think that they can provoke us into supporting them,” says a top EU official despairingly.

Mr Nogaideli claims that the Kremlin is backsliding. “If Russia doesn't want to honour this agreement, they shouldn't have signed it,” he says. Georgia hopes that the many loose ends in Russia's WTO application mean that other countries too will welcome a chance to apply a bit more pressure—on pricey rail freight costs, for example.

Perhaps. But the usual outcome in trade talks is that big countries' arm-twisting is effective—and painful.

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Mexican banking

Underwear and overdrafts

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Retailers, including Wal-Mart, aim to offer bank accounts to Mexico's poor

TRY carrying a television, a DVD player and a blender on a motorcycle. Not easy, especially when the police take you for a burglar. But Irving Clemente does it often in his work for Banco Azteca, a fast-growing bank affiliated with the retail empire of Ricardo Salinas Pliego, one of Mexico's richest men. Banco Azteca provides banking services to Mexico's poor, whose lack of credit history means that traditional banks will not lend to them.

Azteca offers a wide range of financial services but its uniqueness stems from the fact that its branches are located within Mr Salinas's Elektra stores. Critics argue that this distorts lending, but Azteca is not alone in trying to expand the market for banking services in Mexico. Wal-Mart, the retailing giant, has also announced plans to open bank branches in some of its stores, something it has been unable to do in America, which has a 50-year-old barrier between banking and commerce.

Though Wal-Mart is still awaiting approval from the banking regulator, analysts are optimistic about its chances. A Merrill Lynch study says that a Wal-Mart bank might be the most efficient in the country, placing pressure on Azteca and the conventional banks, which are also seeking to expand into poorer sectors.

But for now Azteca is growing fast. Its model is to provide financing to people who buy everything from kitchen sinks to clothes at Elektra, but cannot afford bigger-ticket items (this can be as little as fifty or a hundred dollars). Clients can borrow from Azteca and also open accounts. It had 6.6m savings accounts as of the third quarter of 2006, up from 4.7m a year before. It had a bit over $3 billion under deposit, a 40% jump year-on-year.

This growth has come because Azteca processes loans in a different way to most banks. Rather than check a credit history, it sends an inspector, like Mr Clemente, out to a prospective borrower's house on a motorcycle. He then assesses whether the standard of living matches the income levels stated on the application. Mr Clemente mixes his rounds with courteous visits to borrowers who have fallen behind on their payments. If they are badly in arrears, he repossesses the hardware and takes it back to Elektra on his motorcycle.

Traditional banks have responded. The largest, Banamex, which is owned by Citigroup, has started a programme of “virtual” bank branches in rural areas, where a trusted shopkeeper with access to the internet takes deposits and loan payments and registers them on an internal website. Such inventiveness has helped consumer credit grow quickly. From a low base, it has grown recently by about 50% a year. But banking penetration remains pitifully low. Lending accounts for just over 10% of GDP, compared with a bit over 100% in America and 70% in Chile. The need to improve on those figures is one reason why Wal-Mart's banking application may be more likely to win approval from Mexico's regulators than from America's.

Like Banamex, much of the Mexican banking system is now controlled by foreigners; over 80% of the country's banking assets are foreign-owned, the central bank says. However, this influx of foreign capital has not led to cheaper banking—fees remain high, producing bumper profits. Credit-card interest rates average over 30%, according to Merrill Lynch. Guillermo Ortiz, the head of Mexico's central bank, has been on a campaign to get banks to lower their costs. So far, little has changed.

But the rapid growth of banks like Azteca, which was founded only four years ago, might work to push costs down, particularly if the banking regulator follows through on Mr Ortiz's get-tough rhetoric. The new secretary of the treasury will be Agustín Carstens, announced this week by Felipe Calderón, Mexico's

president-elect, who will be sworn in on December 1st. Mr Carstens, who used to work at the International Monetary Fund, is widely seen as an able and agile administrator who might succeed in improving the banking system where others have failed. But for now, banking in Mexico remains very profitable for banks, and intimidatingly expensive for the country's poor.

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Economics focus

Rocks below the surface

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Democracies get rid of tariffs, but they may encourage subtler forms of protectionism

LISTEN to the campaign rhetoric of America's victorious senators and congressmen (not recommended), and you might easily conclude that bashing trade wins votes. Politically, the calculation looks easy. The benefits from freer trade are diffuse and the winners do not always know in advance who they are. On the other hand, sheltered industries know precisely how much they stand to lose if left bare and unaccommodated.

But look further afield and the affinity between open politics and open markets seems clear. As use of the ballot box has spread, especially to poorer parts of the world, tariffs have fallen. In 1981, for example, the world had only about 40 democracies; and the average tariff in developing countries was almost 30%. By 2003 the roll call of democracies had more than doubled and tariffs had fallen by more than half.

Why? For one thing, voters are also consumers who do not like paying extra for imported goods. Democratic governments can withstand some consumer disgruntlement, especially if it is too thinly spread to swing many votes. But autocracies need pay it no heed whatsoever.

Voters are also workers. The poor countries, where many of the new democracies have flowered, are typically endowed with abundant labour but scarce capital. If they cut themselves off from trade, manpower will be cheap relative to capital. The plutocrats who profit from this economic isolation are the natural allies of autocratic government. Democracy, by contrast, enfranchises a wider circle of people who stand to gain from selling their labour at something closer to world prices.

For both of these reasons, freer trade often follows freer elections. One recent estimate found that a transition from airtight autocracy to full-throated democracy (in a hypothetical developing country of average size, income, and so on) yields a fall in tariffs of seven percentage points, from about 22% to 15% or so. Indeed, Daniel Kono, of the University of California at Davis, claims this finding is “among the most robust in the field of international political economy.”

But it may be less robust than it looks, he argues*. Democrats may shy away from simple tariffs, but they still bash trade by other means. These include “safeguards” which pop up and down as imports surge and recede, and a bewildering array of sanitary and “phytosanitary” standards aimed ostensibly at keeping out pests and disease. Russia, for example, imposed onerous inspections on American poultry exporters, because it said their chicken legs, imported in great quantities after the arrival of democracy, might contain salmonella. The European Union banned Mauritania's award-winning camel cheese because the camels were milked by a pastoralist's hand, not by a gleaming machine.

By Mr Kono's reckoning, the transition from despotism to democracy results in lower tariffs but higher barriers of other sorts. Indeed, the share of imports touched by quotas, antidumping duties and the like would rise by seven points, he finds. Moreover, the product coverage of quality, health and safety controls would increase from less than 9% to more than a fifth.

The uses of obscurity

Tariffs may irk price-conscious consumers but at least they raise revenue for the public coffers. Why then do governments resort to other kinds of barriers, such as quotas and “voluntary export restraints”, which impose costs on consumers without raising any duty? Their appeal lies in their obscurity, Mr Kono argues. Politicians indulge in “optimal obfuscation”. They resort to trade barriers that are difficult for voters to

discern and tricky for political opponents to attack.

The burden of a tariff is easy to explain to the electorate: my opponent wants you to pay more for your milk and cars. Antidumping duties are a more slippery target: dumping does not sound like something a responsible politician should favour. And campaigning against health and safety standards can easily backfire: who wants to be in favour of drowning sea turtles in fishing nets so that people can eat cheaper shrimp?

You may ask if such standards deserve to be attacked. If voters want to conserve sea turtles, ban shoddy imports and stamp out salmonella, democratic politicians surely have a duty to respond. Perhaps these trade barriers simply reflect genuine consumer concern. Perhaps. Mr Kono looks at several proxies for consumer sensitivities, including the stringency of a country's environmental regulations, the purity of its water and the number of quality-marks its companies receive from the International Organisation for Standardisation. Countries that fiercely enforce safety, greenery and quality at the border are not, he concludes, especially anxious to enforce these things at home.

In other cases, however, governments have promised to fight dumping in order to win support for radical trade reform. Several of Latin America's young democracies, for example, were keen to slash tariffs and peg their exchange rates to fight inflation. They promised to defend companies against super-cheap imports as a way to sugar this free-trade pill. Mexico, for example, launched 83 antidumping investigations in 1993, more than any other country. But this was partly to shore up support for the North American Free-Trade Agreement.

Trade is probably still freer under democracies than under the alternatives. It is just that this hunch, as Mr Kono shows, is more difficult to prove than previous scholars had thought. Which is more damaging to trade: a tariff on Mexico's tuna or a demand that its fishermen show greater courtesy to dolphins? The answer is obscure, optimally so.

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*"Optimal Obfuscation: Democracy and Trade Policy Transparency". *American Political Science Review*, August 2006.

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Human fertility

A matter of life and death

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The link between sperm, cancer, an unusual enzyme and the risk of making transgenic people

CONCEPTION and cancer, which mark the beginning and, often, the end of life, share some molecular details. Cancer cells copy their contents and divide rapidly; so do newly fertilised eggs. This requires genetic reprogramming. Curiously, as a result of the reprogramming, both contain appreciable amounts of an enzyme called reverse transcriptase that biologists more usually associate with certain viral infections, including HIV. Reverse transcriptase makes part of the cell's protein publishing line work backwards, recreating DNA, a molecule in which organisms typically store genetic information, from its less stable and correspondingly less favoured cousin, RNA. Why it does so in cancer and in embryos, though, is something of a mystery.

Corrado Spadafora, of Italy's National Institute of Health, in Rome, studies this little-known puzzle. There are thousands of reverse-transcriptase genes in the genomes of all mammals. They are probably left over from ancient viral infections that were pacified and recruited by evolution to do something useful. What that job is exactly, Dr Spadafora is not sure, but data he presented at the annual meeting of the British Andrology Society, in Leeds, suggest some answers. These demonstrate that the enzyme is more than merely useful. It appears essential.

Dr Spadafora showed recently that reverse transcriptase is required for mouse embryos to develop. He did this by removing it in two ways. First, he exposed embryos created in Petri dishes to a common AIDS drug called nevirapine, which works by gumming the enzyme up. This halted development whenever it was added to embryos up to the stage when they were only four cells big. Adding the drug later, when the four cells had divided into eight, had no effect. Second, he checked the drug was not bad for the embryos in some other, unknown, way by specifically turning off reverse transcriptase-producing genes. The result was the same: the embryos did not die, and again, during the sensitive period, they seemed to get stuck in a juvenile stage.

The explanation for this must lie in the biochemical maturity of eight-celled embryos compared with their junior, four-cell siblings. There are hints that reverse transcriptase is needed for a lot of early embryonic functions associated with getting cells ready to specialise into different types of tissue. Seven of the ten genes Dr Spadafora tested were active in healthy embryos, but were shut down in the nevirapine-arrested ones.

Since cancer cells also contain a lot of reverse transcriptase, Dr Spadafora wondered whether stopping the enzyme working might stop them dividing as well. He transplanted four kinds of human cancer into four groups of mice and treated some of each group with nevirapine or a similar drug. In all cases the earlier he gave the drug, the slower the tumours grew, and they always grew more slowly than tumours in mice which got neither drug. Furthermore, the effect was reversible. Dr Spadafora could withdraw treatment and watch tumours grow faster—roughly as quickly as they did in control mice—and then restart treatment and see the growth diminish again. As in the embryo experiments, he then silenced the cancer-cell genes that produced reverse transcriptase, and likewise found the tumours grew more slowly. Moreover, both the drugs and the gene-silencing technique flattened some types of cancer cells, which suggests that both methods of getting rid of reverse transcriptase's effects caused similar molecular changes inside the cells.

Only connect

That common anti-HIV drugs slow cancer growth in AIDS patients has been known for some time. Doctors, however, have attributed the fact to the healthier immune systems the drugs promote. Dr

Spadafora's results suggest a more precise mechanism.

Other biochemical analogies exist between sex cells and cancer ones. In the current issue of *Nature*, Frank McKeon of Harvard Medical School, and his colleagues, report that a gene well-known to suppress tumours evolved from one that stops mammal eggs with lots of mutations getting fertilised. The former, called p53, tells body cells to commit suicide if they develop cancerous changes. The gene that the group discovered, called p63, similarly triggers suicide in eggs with more than about three breaks in their DNA. This is an important job because human eggs are not replaced, unlike most cells in the body. Instead, they are suspended in a partially divided state until they are needed, providing several decades for mutations to creep in. P63 may also co-ordinate DNA repair in eggs with fewer than three breaks, says Dr McKeon. If that guess turns out to be correct, it might be a tool that doctors could use to improve the fertility of women whose eggs are damaged by chemotherapy or radiotherapy.

Some of Dr Spadafora's work is relevant to fertility treatments, too—but in a more worrisome way than Dr McKeon's. Naked sperm (those stripped of the seminal fluid in which they normally issue forth) are more promiscuous than those still dressed in that fluid: they can pick up strands of DNA and RNA from their environment if separated from the other ingredients of semen. And they appear remarkably good at this. Dr Spadafora, for instance, claims he once found a section of frog DNA, which must have hung around in his laboratory from an experiment conducted more than a year previously, inside a mouse sperm.

This promiscuity is widespread, and has been seen in sperm from more than 30 species, from sea urchins to honey bees to humans. In many instances the foreign genes have been incorporated into embryos when the sperm fertilised an egg. In about a quarter of cases the foreign genes have appeared in the next generation. And in Dr Spadafora's mouse experiments, reverse transcriptase in sperm has very occasionally turned foreign RNA into DNA, which has then found a place in the nuclear genome.

Although unlikely to have any effect if it did happen, the principle is cause for concern. Fertility clinics remove the seminal protection from human sperm in order to rid it of diseases. This work suggests, in theory at least, that IVF laboratories could unwittingly create transgenic humans.

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Animal husbandry

Ram-a-lamb-a-ding-dong

Nov 23rd 2006
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The search for long-lived sheep sperm

WHEN it comes to inseminating cows and sows, no bull or boar need travel. Cattle and pig sperm can make the trip to the uterus independently of the testicles in which they develop because farmers have chemical additives that make both last longer. The same cannot be said for ram sperm. They stay alive for only six to ten hours after ejaculation, so a stud ram from Wales cannot easily inseminate a Scottish ewe without going to meet her.

The British ministry responsible for agriculture, DEFRA, would like to change this. Since the foot-and-mouth disease outbreak in Britain five years ago, DEFRA has done what it can to reduce the transport of farm animals over large distances. The ministry would also like to oversee a wider distribution of genes from the small percentage of British rams that are resistant to scrapie, a sheep disease similar to bovine spongiform encephalopathy, or mad-cow disease as it is more commonly known. Artificial-insemination companies have an obvious interest in expanding their markets, too. So ministry and companies have banded together to commission Rhiannon Lloyd and Bill Holt, of the Institute of Zoology in London, to work out how to solve the problem.

Freezing semen for transport, and then thawing it, is not a satisfactory solution. That is because ewes have strangely shaped cervixes which make it impossible for a bendy tube to reach the uterus via the traditional route. If thawed semen is used, it has to be injected directly into the uterus through the ewe's belly wall, which requires a local anaesthetic and also large quantities of defrosted semen. It is probably quite unpleasant for the ewe, too.

Instead, Dr Lloyd and Dr Holt are looking into how species with naturally long-lived sperm do it. Female bats, for instance, maintain viable sperm inside themselves for months. So do salamanders. And a female shark once gave birth after six years in captivity.

So far, the two researchers have identified a promising mixture of proteins, with the unwieldy name of sAPM, which can prolong the active life of ram sperm by several hours, and they hope to tweak this mix to improve its performance. The details remain under wraps, though, as their commercial backers are not keen on too much leaking out.

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AIDS

Good in parts

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The latest UN report suggests hope about AIDS is not entirely misplaced

“YOU can do it if you try.” That is the message which UNAIDS and the World Health Organisation, the United Nations bodies charged with combating HIV, are pushing in their latest report on the state of the epidemic.

The report itself is a work of dry epidemiology. It gives a snapshot of the current state of knowledge about how and why the virus is spreading or regressing in various parts of the world. It looks at transmission paths. It looks at the different risks attaching to a number of vulnerable groups (heterosexual youngsters, homosexual men, prostitutes and recreational drug users who inject their pleasures rather than smoking or swallowing them). And it looks at whether particular public-health measures are effective or not.

But, dry and scientific though it may be, the report is also a platform for propaganda. December 1st is World AIDS Day, and the gurus of global health would like you to notice certain parts of the report and be appropriately concerned. Crafting just the right level of concern requires a delicacy of touch. Too optimistic, and the world might dust its hands together and say “job done”. Too pessimistic and it might simply turn its back on a problem it sees as insoluble. This year, the mixture seems spot on.

The bad news, not surprisingly, continues to be very bad. The number of people newly infected with HIV (the virus that causes the disease) in the past 12 months is estimated at 4.3m. In the same period 2.9m have died from the disease. The total number of people now infected stands at somewhere between 34m and 47m, the range reflecting the fact that it is, indeed, an estimate rather than a proper census. And the rate of growth in some countries is horrendous. In Central Asia and eastern Europe, for example, the annual number of new infections has risen by almost 70% in two years. But there is some good news to balance this.

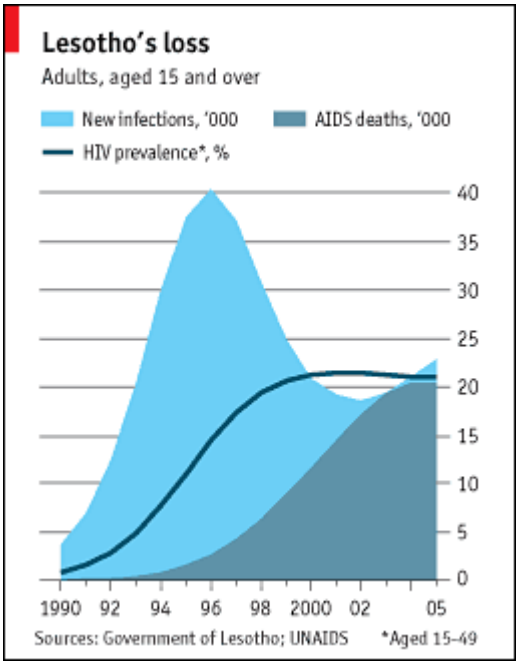
Clouds and silver linings

The report confirms previous observations that the prevalence of the epidemic is levelling out in many places, as death rates and new infections come into balance in countries such as Lesotho (see chart). The most welcome bit, though, is that the message seems to be getting through to the group of people who most need to receive it if the epidemic is to be broken. The group in question is the young of Africa, the part of the world most heavily infected. The report makes much of the fact that some badly infected countries singled out for study saw declines in the prevalence of HIV in 15-24-year-olds. This may reflect the fact that in some of those countries the number of people having their first sexual experience before the age of 15 also declined, and that even the precocious seem to be using condoms more frequently.

There is good news from Asia, too. HIV's prevalence is dropping in southern India. Though Indian rates are not high by African standards, the size of the country means that the number of people infected is now roughly the same as in South Africa, so dealing with the epidemic there is regarded as a priority. And both Thailand and Cambodia, long among the activists' favourite examples of how to get things right (don't be squeamish about handing out condoms, particularly to prostitutes, is an important part of the message), continue to do well.

Another once-lauded favourite, however, has been sent to the

back of the class. Uganda once stood alongside Thailand and Cambodia as an example of a place where the epidemic had been brought under control. No longer. Infection rates are now rising in parts of the country. The report is too diplomatic, though, to mention what many think is the reason for this—a shift from proselytising condom use to proselytising abstinence before marriage and fidelity within it. That shift is, at least in part, a result of American government pressure. But desirable though chastity and constancy might be (and achievable, too, if the under-15 data are reliable) they cannot do the job alone. To rub out AIDS there is still no substitute for rubber.



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Flirting

Don't misunderestimate yourself

Nov 23rd 2006
From The Economist print edition

Why people think that rivals are better looking than they really are

IF YOU have ever sat alone in a bar, depressed by how good-looking everybody else seems to be, take comfort—it may be evolution playing a trick on you. A study just published in *Evolution and Human Behavior* by Sarah Hill, a psychologist at the University of Texas, Austin, shows that people of both sexes reckon the sexual competition they face is stronger than it really is. She thinks that is useful: it makes people try harder to attract or keep a mate.

Dr Hill showed heterosexual men and women photographs of people. She asked them to rate both how attractive those of their own sex would be to the opposite sex, and how attractive the members of the opposite sex were. She then compared the scores for the former with the scores for the latter, seen from the other side. Men thought that the men they were shown were more attractive to women than they really were, and women thought the same of the women.

Dr Hill had predicted this outcome, thanks to error-management theory—the idea that when people (or, indeed, other animals) make errors of judgment, they tend to make the error that is least costly. The notion was first proposed by Martie Haselton and David Buss, two of Dr Hill's colleagues, to explain a puzzling quirk in male psychology.

As studies show, and many women will attest, men tend to misinterpret innocent friendliness as a sign that women are sexually interested in them. Dr Haselton and Dr Buss reasoned that men who are trying to decide if a woman is interested sexually can err in one of two ways. They can mistakenly believe that she is not interested, in which case they will not bother trying to have sex with her; or they can mistakenly believe she is interested, try, and be rejected. From an evolutionary standpoint, trying and being rejected comes at little cost, except for hurt feelings. Not trying at all, by contrast, may mean the loss of an opportunity to, among other things, spread one's DNA.

There is an opposite bias in women's errors. They tend to undervalue signs that a man is interested in a committed relationship. That, the idea goes, is because a woman who guesses wrongly that a man intends to stick around could end up raising a child alone.

On looks, however, men and women make the same error. So go on, pluck up your courage: you may think the competition is frighteningly hot, but then so does she.

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About sponsorship

Liberty and democracy

It took a Frenchman

Nov 23rd 2006
From The Economist print edition

Alexis de Tocqueville's strong views on demagoguery and citizenship are worth remembering, as is clear from a splendid new biography

Alexis de Tocqueville: Prophet of Democracy in the Age of Revolution—A Biography
By Hugh Brogan

Profile; 724 pages; £30.

Buy it at
Amazon.com
Amazon.co.uk

AFP

ON SWITCHING off the light after reading “War and Peace”, Edmund Wilson, an American critic, would find his bedroom magically “full of people”. Something like that happens with this biography of Alexis de Tocqueville (1805-59), a French politician and thinker whose anxieties about liberty and democracy many people find as pressing now as when he voiced them.

Hugh Brogan is not just a sure-footed guide to a brilliant, though elusive, theorist. He has a historian's grasp of the period and a novelist's gift for character. As a portrait of a complicated man, a teeming milieu and a world in tumult, “Alexis de Tocqueville” has the satisfying fullness of 19th-century fiction.

The timing could hardly have been better. The call of Tocquevillian ideals—civic virtue, active citizens, strong community associations—has seldom been stronger. This is particularly true in America, which Tocqueville visited in 1831-32 and wrote about enthusiastically in his masterpiece, “Democracy in America”. The vogue for communitarianism may have cooled somewhat, but Tocqueville's name is heard around the White House; earlier this year President George Bush told an interviewer that he wanted his legacy to include the creation of a Tocquevillian think-tank.

What Tocqueville said and did, however, is not necessarily what modern followers would always want him to have done, as Mr Brogan, a British historian of America, makes clear. Exasperated by his acolytes, Karl Marx supposedly grumbled, “I am not a Marxist.” On finishing this marvellous book, it is easy to imagine Tocqueville's ghost murmuring, “Say what you will, I was never a Tocquevillian.”

To appreciate his ideas, Mr Brogan thinks it important first to understand his “cross-grained” character. Seldom in good health, Tocqueville lived on his nerves, working in bursts followed by frequent collapses. The surface clarity of the writing is a pose. To Mr Brogan, Tocqueville was less a cool-headed analyst than an impulsive romantic, able to “write successfully” only when “his feelings were deeply engaged”. He loathed the Paris crowd, adored his run-down manor on the Cotentin peninsula in Normandy and loved France almost to the point of jingoism. Religious faith was not rationally defensible, but he thought that some dogmatic beliefs (preferably Roman Catholic) were necessary for social cohesion. He was more a man of attachments than one of principles.

Though lucid about its failings, Tocqueville was proud to belong to the twin secular peaks of old France, the *noblesse d'épée* and *noblesse de robe*. His father came from a line of Norman squires claiming a forebear who sailed with William to conquer England in 1066. His mother's grandfather was Chrétien-Guillaume de Malesherbes, a lion of the Paris bar who defended Louis XVI at his trial. The French revolution swept away Malesherbes and several of his family. Tocqueville's father, jailed with them, escaped only because the guillotine caught up with Robespierre first.

The son respected many of his family's attitudes but flouted others. His father had flourished in the Bourbon restoration, but at its fall in 1830, the son took an oath to the new Orleanist king. More daringly yet, in 1835 he married an Englishwoman who was not noble, Catholic or rich.

Tocqueville's arias to excellence and warnings about mediocrity have misled people into thinking him a snob. This is a confusion. He was a nob, with a sense of *noblesse oblige*. Public office, though no longer a privilege, was still a duty. A poor speaker and hopeless party man, Tocqueville was elected to the Chamber of Deputies only at his second go in 1839, sitting with the centre left. In the second republic of 1848-51 he was briefly foreign minister and drafter of a constitution that lasted barely a year. His “Souvenirs” contain sharp, somewhat sour, memories of his unhappy role in those times.

Louis Napoleon, the popularly elected president, ended Tocqueville's career. In 1851 he closed parliament. Before long he made himself emperor. The second empire promised France stability and prosperity. But to Tocqueville the price in despotism was too high. The rise of a populist demagogue, to use modern terms, confirmed his blackest fears about the tyrannous possibilities of democracy.

He began a history of the French revolution but completed only the portion on the *ancien régime* before tuberculosis killed him at 54. Still, his collected writings fill 17 volumes. Mr Brogan warms to those that are freshest and most direct, above all the first volume of “Democracy in America” (1835), in which an aristocratic lawyer discovers at first hand a society turning its back on privilege. His chapters on Tocqueville's American travels make a book within a book. Mr Brogan is cooler towards the darker, more generalised second volume of 1840, where Tocquevillian abstractions—individualism and centralisation—do battle against civic mores for the soul of modern society.

Without forcing a 19th-century figure into 21st-century disputes, Mr Brogan brings out two related ways in which Tocqueville remains part of the argument. One is his insight that despotism has no dates, but can be ancient or modern, monarchical or democratic. The other is a conviction, shared with the ancient Greeks and Machiavelli, that good citizens matter more to free societies than good institutions. Tocquevillian liberals believe that governments should encourage better citizenship. Economics liberals distrust fiddling with markets, however worthy the goal. It is unsure if the two can be more than tactical allies. Before either side says another word about Tocqueville, though, they should both read Mr Brogan.

Alexis de Tocqueville: Prophet of Democracy in the Age of Revolution—A Biography.
By Hugh Brogan.
Profile; 724 pages; £30.

To be published in America by Yale University Press in March

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About sponsorship

Imagining the soul

Spirit levels

Nov 23rd 2006
From The Economist print edition

“DOES [the soul] resemble a shadow, a reflection, a breath, or what?” This is one of the questions which James Frazer, a great Victorian anthropologist, sent out to missionaries and other field-workers all over the British empire, as part of his inquiry into “The Customs, Beliefs, and Language of Savages”. Marina Warner, a British novelist, critic and cultural historian, asks a similar question in her new book, “Phantasmagoria”. She comes back with the answer that it resembles all of the above, and plenty of other things too—including wax, clouds, light, air, ether, muslin and photographic images.

Her subject is the metaphors that have been used to clothe the ideas of soul and spirit since the Enlightenment, from religious art to gory death-masks, and from the fairy photographs that fooled Sir Arthur Conan Doyle in the 1920s to the avatars in today's “massively multi-player online role-playing games”. As one would expect from some of Ms Warner's earlier surveys, which have included books on monsters, fairy tales, heroism and the veneration of the Virgin Mary, the result is a wonderful cabinet of keenly observed curiosities.

Phantasmagoria: Spirit Visions, Metaphors, and Media into the Twenty-First Century
By Marina Warner

Oxford University Press; 490 pages; $29.95 and £18.99

Buy it at
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That such a study is possible at all is a glaring paradox. The soul or spirit has nearly always been held to be an immaterial thing, and thus not part of the physical world. So how is it that ghosts are allegedly seen and felt, spirit-rappings are heard, and fairies are photographed? The puzzle is not that some people give credence to paranormal phenomena, but that they manage to believe that these phenomena are both physical and not physical at the same time. Such photographs were sometimes intended to appropriate their subjects and allow them to be filed away.

This is not a problem for Ms Warner. Her interest is in the ways in which ideas of the soul are shaped by the technology and circumstances of a society, and how these ideas in turn shape the way people see themselves. If those ideas are sometimes self-contradictory, so be it. In her terms, a myth may sometimes not be a mere delusion, but rather a fiction with the power to illuminate the workings of the psyche. She provides a convincing example of this in an extended discussion of the belief that having your photograph taken can steal your soul. As she demonstrates, some early 20th-century ethnographers armed with cameras did in effect rob their subjects—of their pride and their values.

Ms Warner is also illuminating on the apparent gullibility of some 19th-century scientists and rationalists, such as the members of the British and American societies for psychical research. In a revealing aside on the infamous Cottingley fairy photographs, taken by two young girls (one of whom worked in a photographer's shop retouching prints), she suggests that it may well have been the literal-minded rationalism of Conan Doyle and his ilk that was the problem. For the girls, the fairy pictures were probably just fantasy play, which they did not literally believe in. It was, Ms Warner suggests, Conan Doyle's “scientific positivism that compelled him to interpret the photograph as a document of an external reality.”

Nowadays, Ms Warner thinks, people have become accustomed to a kind of permanent disembodiment, thanks to the ubiquity of digital representations of themselves, via digital cameras and CCTV monitors (and, though she does not mention it, internet video). As she nicely puts it, the predicament of Narcissus, who did not recognise his own image in the pool, has been reversed: “We now know ourselves in our mind's eye mostly by projecting internally a camera's eye view.”

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The Palestinians

Who's their Mandela?

Nov 23rd 2006
From The Economist print edition

THERE was no such thing as a Palestinian people, the late Golda Meir famously said when, as Israel's prime minister in 1969, she justified their uprooting. She had a point, of sorts. Though the Palestinians were at least as highly developed a people as their fellow Arab members of the Ottoman empire, their claim to independent existence after the collapse of that empire in 1917 was largely airbrushed out of history. Rashid Khalidi, a New York-born Palestinian-American who holds the Edward Said chair in Arab studies at Columbia University, looks for the reason why.

Palestine—present-day Israel, the West Bank and Gaza—had, like Syria, Lebanon and Jordan, been part of Greater Syria, for three centuries under Ottoman control. Unlike them, the Palestinians failed after the first world war to turn the mandatory regimes created by the League of Nations into eventual independence. Mr Khalidi offers two explanations, the British, not unexpectedly, being the villain of both.

Britain crafted the Palestinian mandate into an “iron cage”, a cage from which, Mr Khalidi argues, the Palestinians have never succeeded in escaping. The mandate committed the League to Britain's wartime promise to establish a “national home” for the Jewish people (at that time about 10% of the population), but made no reference to Arab Palestinian rights to self-determination. Indeed, he writes, the document did not even refer to Arab Palestinians by name but as non-Jews or natives or some such. The long process of subjugation, of fighting to survive as a people, had begun.

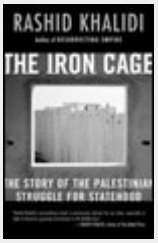
Second, the British authorities firmly discouraged the setting up of any sort of representative political structure or leadership, preferring to deal with traditional “notables” or with religious institutions created for the purpose. The notables, writes Mr Khalidi, wanted to liberate their country but, until too late, “resorted to ineffectual beseeching of British government ministers”. Eventually, in 1936, the territory exploded in armed revolt which, after three years, was bloodily suppressed.

Then, at last, on the eve of the second world war, came a British promise of independence in ten years—conditional on Jewish approval. The condition amounted to a veto, but, even so, it would have been clever of the Palestinian leaders to have accepted. Instead the Palestinians, for the first time but not alas for the last, said no to an imperfect offer. Then came the Holocaust, the establishment of Israel, the collapse and scattering of Palestinian society, the frustrating search for a two-state compromise. Now, says Mr Khalidi, all that remains of Arab Palestine is a “patchwork of open-air prison camps”.

An escape from these prisons, to something other than semi-free statelets, is suggested by Ali Abunimah, a Palestinian-American, who created and edits the Electronic Intifada website. But it is an escape to Utopia: a single state of Israel/Palestine where lion and lamb nuzzle down together. Impossible, probably. On the other hand, argues Mr Abunimah, if South Africa could break out of seemingly impossible conflict to find peace and reconciliation, why not Israel?

Some 5m Jews and some 5m Arabs, including Israel's sizeable Arab minority, confront each other in land

The Iron Cage: The Story of the Palestinian Struggle for Statehood
By Rashid Khalidi



Beacon; 352 pages; $24.95

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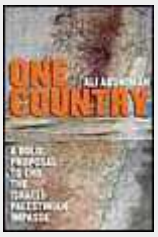
One Country: A Bold Proposal to End the Israeli-Palestinian Impasse
By Ali Abunimah



Metropolitan Books; 227 pages; $23

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that is controlled, directly or indirectly, by Israel. Splitting the land between them (albeit on a 78% to 22% ratio) seemed a good idea at the time, but its time may have run out. For a start, partition has been so complicated by Israeli settlements, many specifically created to bar neat division, that the geographical conditions for two viable states are at vanishing point.

The obvious alternative is living together in a single state with equal rights for Jews and Arabs. The huge snag here (apart, that is, from the violence and oppression, the ill-feeling and the fact that Hamas, the Palestinians' ruling party, does not officially recognise Israel) is demographic. In a few years, given their higher birth rate, Arabs will outnumber Jews. If, as Palestinians believe is essential, the right of the 1948 refugees to return to live at peace is honoured, the outnumbering would be faster. A democratic Israel/Palestine can be envisioned but it could not, at the same time, be a Jewish state, with a Jewish monopoly on power.

Which makes it unthinkable for most Israeli Jews. But, argues Mr Abunimah, at one time South Africa's whites thought majority rule unthinkable. Admittedly, the demographics in South Africa were much more dramatic: the blacks outnumber the whites by eight to one. Even so, a peaceful transformation to democracy did for a long time seem unattainable.

What happened, he says, is that the Africa National Congress was able to put forward a vision that eventually changed the heart of most whites. Will the Palestinians, he wonders, ever find the inner strength to articulate a similar vision? Mr Abunimah himself is visionary, but he still leaves this reader more convinced of the hideousness of the current Israeli-Palestinian stalemate than persuaded that the way forward he advocates so skilfully and interestingly could ever really come to pass.

The Iron Cage: The Story of the Palestinian Struggle for Statehood.
By Rashid Khalidi.
Beacon; 352 pages; $24.95

One Country: A Bold Proposal to End the Israeli-Palestinian Impasse.
By Ali Abunimah.
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Robert Altman

The long goodbye

Nov 23rd 2006
From The Economist print edition

Huge casts and overlapping dialogue characterised Robert Altman's films

ROBERT ALTMAN discovered the secret of longevity in Hollywood: work fast and never pause to assess the impact of one film before starting another. If an Altman movie bombed—and he had some turkeys in his time—he generally had another already in production or about to open. In this way he was always one step ahead of the flak.

Altman was renowned for marshalling large casts and encouraging them to deliver lines, not in sequence but simultaneously. The result was a leap forward for cinematic realism. Dialogue overlapped and was interrupted in a way that often happens in life but had seldom been encountered on screen. This was heard at its best in such films as “Nashville” (1975) and “Short Cuts” (1993), where, with a teeming cast of characters, he contrived in just two cities—Nashville and Los Angeles—to convey an impressionistic portrait of America itself at those junctures.

In the early 1950s, he made various documentaries, including “The James Dean Story”. In his last work, which opened more than 50 years later in May this year, he joined forces with Garrison Keillor to bring “A Prairie Home Companion” to the screen. Altman made big films, like his trenchant Hollywood satire “The Player” (1992), small ones like the now almost forgotten “Thieves Like Us” (1974) and frankly experimental ones such as “3 Women” (1977). He even ventured into science fiction—early in his career with “Countdown” (1968) and later with his 1979 film “Quintet”, which imagines America in the grip of some future ice age.

It was a huge career, extending beyond cinema to television (in the Tanner series) and even the theatre. His stage work, however, was not successful and was fiercely criticised. He experienced a humiliating flop when Kevin Spacey invited him to stage a little known Arthur Miller play, “Resurrection Blues”, earlier this year at London's Old Vic theatre. In effect Altman allowed the cast to stroll through the production with minimal guidance. The penalty came in the form of blistering reviews and an early closure, leaving the venerable old theatre dark for several months.

The very diversity of his films—war comedy in “M*A*S*H”, a Western in “McCabe and Mrs Miller”, comic-strip humour in “Popeye”, lunatic improvisation in “Health”—may in the end count against his long-term reputation. There seemed to be no common thread or theme to Altman's films. He was a director of other people's work, not an artist in his own right. No shame in that, of course. William Wyler, after all, was of the same ilk and nobody would disparage “The Best Years of Our Lives”. But in the end it is the Chaplins and the Stroheims who are the more respected directors, men whose whole career mirrors their view of the world. Altman will be remembered, not so much for what he said but for how he said it.

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About sponsorship

Rebecca Horn

It's her party

Nov 23rd 2006 | BERLIN
From The Economist print edition

At 62, Germany's leading installation artist curates her own retrospective

Rebecca Horn

Neither silent nor a lamb

“BERLIN is such a wounded city,” says Rebecca Horn as she enters her new retrospective in the German capital. Though not a Berliner—she was born near Heidelberg in 1944—Ms Horn has been drawn to the city whose upheavals and mutations have so shaken Germany's artistic imagination over the past half-century. “Berlin has become important for international culture,” she says, “and in Germany the most interesting place. But for me, it is also the most vulnerable.”

Ms Horn only began living in Berlin in 1989, when she took up a teaching post at the Universität der Künste, which she still holds. Previously, she had lived in Paris and for most of the 1970s she was based in New York. Work aside, Berlin exerts its pull for melancholy reasons. “How many millions of people died here?” she asks. “The new generation neither knows nor cares.”

Like many of her generation, born just as the war was ending, Ms Horn carries the scars of belonging to a despised nation. She remembers a teacher weeping at what she knew about the war years—the destruction, the camps—which German schoolbooks made no mention of at the time. She talks with feeling of how difficult it was to be heard speaking German abroad, even into the 1960s.

Wounds characterise Ms Horn in another way. In 1967, while studying in Hamburg, she found herself sculpting with fibreglass and polyester. Nobody had told her about toxic fumes or warned her to wear a mask. Her lungs were severely damaged, which drastically cut short her student days and led to a long, isolating period of convalescence.

Illness became a metaphor for her as an artist and incapacity led to her insignia: use of the lightest of materials, feathers most of all; an obsession with the fragility of the body, with what can be appended to it and how it can be modified into an artwork; and a penchant, in her early years, for performance.

Early Horn is quite kinky. The first thing you see on entering this Berlin show is a film of Ms Horn's strange “Pencil Mask” (1972, pictured) in action. Resembling a bondage accessory and wrapped around her head, the mask's spike-like pencils are drawn back and forth over a vertical sheet of paper, producing a dense scribble.

Ms Horn's early *objets*—phallic horns attached to the head, curved horns extending from a woman's

breasts to her mouth—have a prosthetic weirdness about them that unashamedly echoes Surrealism's taste for erotic fetishism. Filmed records of Ms Horn's 1970s performances include, for instance, images of a hand probing a vagina-shaped double column of black feathers and of the artist trying to kiss a man with a wodge of similar black feathers attached to her face.

Since then, her sculptures have become harder, sharper-edged, less autobiographical and, frequently, machine-run. Some respond to new historical tragedies. In “Book of Ashes” a massive needle traces tentative lines through ashes on a metal plate. Beside it is displayed a poem by Ms Horn, dated precisely to September 11th 2002. Behind, a cello played by two bows periodically strikes up—a compelling lament, one year on, for the World Trade Centre's ghostly fallout.

Walking with Ms Horn around the Berlin exhibition is an exhilarating experience. “The building”, Ms Horn points out, “is so classical, with, at its centre, a unique open space.” This is the Lichthof, or central atrium. Here, she explained one of her latest pieces, “Moon Mirror”.

This is a sort of reflection tower. Two circular mirrors, one still, one mobile, are mounted on the floor of the Martin-Gropius-Bau's atrium. A few metres above it hangs another circular mirror; beyond it, much higher up, are two more discs, one blue, one darker. You look down and, reflected, feel yourself, as Ms Horn puts it, “falling right into it, encountering a twilight zone, somewhere beyond”.

The same idea lies behind another haunting piece called “Twilight Transit”. In a dark room nine black human skulls on stands, each lit from below by bright lights, are aligned with a round, mobile mirror on one side and a glass disc on the other. As the spectator looks into a mirror behind which sits a skull, the sense of the “beyond”, of what lies after life, is distinct and powerful.

Despite the seemingly ghoulish material, Ms Horn has clearly embraced a new serenity. She senses, however, that Berliners are more interested in her earlier experiments: the feathers, receptacles catapulting ink onto walls, the sexier stuff. Berliners, she claims, “do not get or do not want to get” the newer, more memory-tugging installations.

She describes her show's final section as “melancholy”: the rooms here are, indeed, touching, sombre and dark. Ms Horn feels that this work is for and about a city of such historical sadness. Then, reaching the last room, bathed in unexpected natural light, Ms Horn points through the window to a restored building outside, which used to lie behind the wall. “And there's Berlin,” she says.

“Rebecca Horn: Drawings, Sculptures, Installations, Films 1964-2006” is at the Martin-Gropius-Bau in Berlin until January 16th. Tel + 49 30 254 860

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Igor Sergeyev

Nov 23rd 2006
From The Economist print edition

Reuters

Igor Sergeyev, an upright Russian soldier, died on November 10th, aged 68

IF HEROIC is the word that Russian officialdom tends to reach for when describing its armed forces, the adjectives more often heard in the West are brutal, bloodstained, threatening or impoverished. Not since Stalingrad have Westerners had much good to say about the Soviet military machine or its Russian successor, still less about those who have been in charge of them. Yet the story is not all bad. Great achievements have been accomplished by Russia's armed forces, thanks to the efforts of good men. Igor Sergeyev was one of them.

The tales about him that are best known would not automatically put him in the category of the honourable soldier. On the face of it, he was a conventional military man, albeit an exceptionally successful one: he rose to become Russia's first marshal, and remained the only one in active service to have held that rank. As minister of defence, he was in charge of the army when, in September 1999, Russia began its second ruthless campaign against the separatist Chechens. He was also in charge when, in August 2000, the submarine *Kursk* was lost with all hands in an ill-explained accident in the Barents Sea, followed by an inadequate rescue attempt. He was sacked a few months later.

By that time, too, he had made a name for himself as the chief proponent of a strong role for strategic nuclear weapons in the thorough review of Russian national security that was started in the late 1990s. A truly enlightened man, less worried about national prestige and more concerned with genuine threats, might have argued for putting the emphasis on conventional forces. This was the view of the chief of staff, Anatoly Kvashnin, who believed that Russia had no need to maintain nuclear parity with the United States but would still have an effective deterrent if it were to reduce its land-based, long-range missiles from 756 to 150 in 2003.

That view might have prevailed, but for the decision of President George Bush in 2001 to withdraw from the 1972 Anti-Ballistic Missile treaty. This ensured that the second Strategic Arms Reduction treaty (long stalled by the Russians) would never be ratified, and allowed the Kremlin to hang on to many of the land-based missiles it would otherwise have had to scrap.

So Marshal Sergeyev got his way. And making that way even more alarming for Russia's enemies was his support for a new version of military doctrine that allowed the limited use of tactical nuclear weapons to counter even a conventional attack. The marshal was no peacenik.

Yet neither was he belligerent—or corrupt, or irresponsible. He managed but did not instigate the war in Chechnya, a Kremlin affair, and probably deserved little blame for the *Kursk* episode. More to the point,

he played a leading role, as commander-in-chief of Russia's Strategic Rocket Forces, in the safeguarding of the disintegrated Soviet Union's nuclear arsenal. This was his great achievement.

Marshal arts

After the break-up of the Soviet Union in 1991, it was General (as he then was) Sergeyev who had the task of ensuring that the country's long-range nuclear weapons did not fall into the wrong hands. The tactical nukes had already been moved away from the Caucasus and other areas of conflict. But many of the long-range missiles, those that could strike western Europe and America, were in Belarus, Kazakhstan or Ukraine. General Sergeyev had to get them back to Russia fast, ensuring that their weapon systems were no longer “combat ready”, that their highly toxic fuel was removed and that their warheads were detached. With his officer corps scattered in four countries and the Ukrainians in obstructive mood, the possibility of an unauthorised launch was a constant worry.

The operation was complicated both technically and politically: military morale was low and money scarce. It was also diplomatically delicate. General Sergeyev had to win the co-operation of Belarus, Kazakhstan and Ukraine, which was achieved by formally sharing control of the weapons while in reality keeping it in Russia. And he had to reassure the Americans that the United States was not about to be hit by a stray nuclear missile. This he did by keeping his American counterparts, General Lee Butler and Admiral Henry Chiles, fully informed throughout.

It all went well. Yet even when, in 1994, virtually all the nuclear material was back in Russia, the general's troubles were far from over. It took his full authority, and his fury, to get Moscow's power company to restore electricity that year after it had cut off supplies to the nuclear-missile bases near the capital for non-payment of bills.

Throughout his career, Marshal Sergeyev was a responsible professional. He could have tried to resist the dissolution of the Soviet Union, arguing that weak politicians were in breach of their duty to hold it together; but he did not. He could have actively supported the attempted coup against Mikhail Gorbachev in August 1991; but he did not. He could have drowned his sorrows in vodka, and let nuclear warheads trundle off into some international underworld; but he did not. Rather, he helped the world get through a period of huge turbulence without incident. Since any incident might have been a nuclear one, the world should be grateful.

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Overview

Nov 23rd 2006
From The Economist print edition

There was more bad news from **America's housing market**. Housing starts fell at an annual rate of 14.6% in October. The pace of residential construction is now almost 30% below its level of a year ago. The number of building permits fell by 6.3% at an annual rate, suggesting worse to come.

The Bush administration has become a bit less confident about the economy. Its latest **official forecast** expects America's GDP to grow by 3.1% in 2006 and 2.9% in 2007. In June, the White House expected growth of 3.6% and 3.3%, respectively.

France's flat economy in the third quarter reflected a sharp rundown of inventories, which may soon need rebuilding. Exports were also weak. **Spain's** growth of 0.9% in the third quarter was the result of strong domestic demand. Exports grew by 3.5% compared with a year earlier, while imports grew by 11%.

The **euro area** grew at a quarterly rate of 0.6% in October, according to the EuroCOIN indicator of economic activity, compiled by the Centre for Economic Policy Research.

“Private consumption is almost flat” in **Japan**, according to the Cabinet Office's November economic report. For the first time since December 2004, it felt the need to modify its claim that “the economy is recovering”, adding that this was “despite some weakness in consumption”. Foreign demand also appears to be weakening. Thanks to slower export growth, Japan's trade surplus fell to ¥615 billion in October, according to customs figures, almost 25% less than a year earlier.

Canada's consumer prices rose by 0.9% in the year to October, just below the Bank of Canada's target range of 1-3%. However, core annual inflation (which excludes eight volatile categories of goods and the effects of indirect taxes) rose to 2.3%, its highest rate since May 2003.

Two of the nine members of the **Bank of England's** rate-setting committee voted against its decision to raise rates to 5% earlier this month, according to the minutes of the meeting released this week. One of the dissenters wanted to hold rates at 4.75% to let the labour market tighten again. The second dove thought America's slowdown posed a bigger risk to Britain than the Bank's forecasts implied.

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Output, demand and jobs

Nov 23rd 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q2	+ 1.3	+ 2.7	+ 3.2	– 3.0	Q2	+ 3.2	Q3	4.6	Oct	5.2
Austria	+ 3.3	Q3	+ 3.6	+ 2.8	+ 2.1	+ 9.1	Aug	+ 1.8	Aug	4.7	Oct	5.2
Belgium	+ 3.1	Q3	+ 2.4	+ 2.7	+ 1.9	+ 1.8	Sep	nil	Aug	13.0	Sep†	13.5
Britain	+ 2.8	Q3	+ 2.8	+ 2.6	+ 2.4	+ 0.4	Sep	+ 3.9	Oct	5.6	Sep‡	4.7
Canada	+ 2.9	Q2	+ 2.0	+ 2.8	+ 2.5	– 0.4	Aug	+ 3.7	Jul	6.2	Oct	6.6
Denmark	+ 2.8	Q2	+ 6.5	+ 3.1	+ 2.3	– 0.7	Sep	+ 3.3	Sep	4.2	Sep	5.5
France	+ 1.9	Q3	nil	+ 2.3	+ 2.0	– 0.7	Sep	+ 1.7	Sep	8.8	Sep	9.8
Germany	+ 2.8	Q3	+ 2.6	+ 2.4	+ 1.4	+ 6.3	Sep	– 1.2	Sep	10.4	Oct§	11.6
Italy	+ 1.7	Q3	+ 1.3	+ 1.7	+ 1.2	+ 1.3	Sep	+ 0.1	Aug	7.0	Q2	7.8
Japan	+ 2.7	Q3	+ 2.0	+ 2.7	+ 2.1	+ 5.2	Sep	+ 0.3	Aug	4.2	Sep	4.3
Netherlands	+ 2.6	Q3	+ 2.6	+ 2.7	+ 2.2	+ 1.2	Sep	+ 3.5	Jul	5.5	Oct††	6.5
Spain	+ 3.8	Q3	+ 3.6	+ 3.5	+ 2.8	+ 0.9	Sep	+ 3.8	Sep	7.8	Sep	8.6
Sweden	+ 5.1	Q2	+ 5.4	+ 4.4	+ 3.1	+ 6.0	Sep	+ 8.7	Sep	4.6	Oct†	5.6
Switzerland	+ 3.2	Q2	+ 3.0	+ 2.9	+ 2.1	+ 4.3	Q2	+ 4.5	Aug	3.1	Oct†	3.7
United States	+ 2.9	Q3	+ 1.6	+ 3.3	+ 2.3	+ 4.9	Oct	+ 6.1	Sep	4.4	Oct	4.9
Euro area	+ 2.6	Q3	+ 2.0	+ 2.6	+ 1.9	+ 3.3	Sep	+ 1.4	Sep	7.8	Sep	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 6.6	Q2	+ 7.6	na	na	+ 6.8	Sep	+ 7.1	Sep	7.9	Oct	8.1
Greece	+ 4.3	Q3	na	na	na	– 2.6	Sep	+10.1	Aug	8.8	Q2	9.6
Iceland	+ 2.8	Q2	na	na	na	na		na		1.0	Sep†	1.4
Ireland	+ 5.0	Q2	+ 3.6	na	na	+ 6.0	Sep	+ 3.9	Sep	4.4	Oct	4.4
Luxembourg	+ 5.4	Q2	na	na	na	– 1.4	Jul	+ 1.7	Sep	4.4	Sep	4.3
New Zealand	+ 1.6	Q2	+ 1.7	na	na	+ 0.5	Q2	+ 1.0	Q3	3.8	Q3	3.7
Norway	– 0.5	Q2	+ 1.9	na	na	– 4.7	Sep	+ 8.1	Sep	3.3	Sep**	4.8
Portugal	+ 0.9	Q2	+ 3.8	na	na	+ 1.6	Sep	+ 2.1	Sep	7.3	Q2†	7.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Jul-Sep; claimant count rate 3.0% in Oct. §EU harmonised rate 8.7% in Sep. ††Aug-Oct. **Jul-Sep.

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Prices and wages

Nov 23rd 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.9	Q3	+ 3.0	+ 3.4	+ 2.7	+ 7.9	Q3	+ 6.2	+ 3.9	Q3	+ 6.0
Austria	+ 1.1	Oct	+ 2.0	+ 1.7	+ 1.7	+ 2.4	Oct	+ 1.3	+ 2.7	Oct	+ 2.3
Belgium	+ 1.2	Oct	+ 2.5	+ 2.2	+ 2.0	+ 6.1	Sep	+ 1.4	+ 2.1	Jul	+ 2.5
Britain	+ 2.4	Oct*	+ 2.3	+ 2.3	+ 2.2	+ 1.7	Oct	+ 2.6	+ 3.9	Sep†	+ 4.1
Canada	+ 0.9	Oct	+ 2.6	+ 2.2	+ 2.1	+ 1.3	Sep	+ 0.9	+ 1.1	Aug	+ 1.8
Denmark	+ 1.5	Oct	+ 2.0	+ 2.0	+ 2.0	+ 2.6	Sep	+ 5.3	+ 3.2	Q2	+ 2.9
France	+ 1.1	Oct	+ 1.8	+ 1.8	+ 1.5	+ 2.7	Sep	+ 3.3	+ 2.9	Q3	+ 3.1
Germany	+ 1.1	Oct	+ 2.3	+ 1.7	+ 2.3	+ 2.9	Oct	+ 2.7	+ 0.8	Aug	+ 0.9
Italy	+ 1.8	Oct	+ 2.2	+ 2.2	+ 1.9	+ 5.4	Sep	+ 3.8	+ 3.0	Sep	+ 3.1
Japan	+ 0.6	Sep	– 0.3	+ 0.3	+ 0.5	+ 2.8	Oct	+ 2.1	+ 1.0	Sep	– 0.1
Netherlands	+ 0.9	Oct	+ 1.6	+ 1.6	+ 1.7	+ 2.8	Sep	+ 5.3	+ 1.9	Oct	+ 0.9
Spain	+ 2.5	Oct	+ 3.5	+ 3.5	+ 2.8	+ 4.2	Sep	+ 5.4	+ 3.1	Q2	+ 3.4
Sweden	+ 1.3	Oct	+ 0.5	+ 1.4	+ 1.8	+ 3.6	Sep	+ 4.2	+ 3.1	Aug	+ 3.3
Switzerland	+ 0.3	Oct	+ 1.3	+ 1.2	+ 1.2	+ 2.3	Oct	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 1.3	Oct	+ 4.3	+ 3.4	+ 2.3	– 1.6	Oct	+ 5.9	+ 3.9	Oct	+ 3.1
Euro area	+ 1.6	Oct	+ 2.5	+ 2.2	+ 2.1	+ 4.6	Sep	+ 4.4	+ 2.4	Q2	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Oct	+ 0.8	na	na	+ 5.8	Oct	+ 3.3	+ 3.5	Q3	+ 4.0
Greece	+ 2.8	Oct	+ 3.8	na	na	+ 3.6	Sep	+ 6.7	na		na
Iceland	+ 7.3	Nov	+ 4.2	na	na	+11.9	Oct	+ 4.2	+11.0	Oct	+ 6.9
Ireland	+ 3.9	Oct	+ 3.0	na	na	+ 0.1	Sep	– 0.2	+ 4.1	Q2	+ 3.5
Luxembourg	+ 1.5	Oct	+ 3.1	na	na	+ 9.3	Aug	+ 5.4	+ 0.4	Aug	+ 1.1
New Zealand	+ 3.5	Q3	+ 3.4	na	na	+ 6.9	Q3	+ 6.1	+ 3.2	Q3	+ 3.1
Norway	+ 2.7	Oct	+ 1.8	na	na	+ 5.9	Oct	+10.1	+ 3.6	Q2	+ 3.8
Portugal	+ 2.7	Oct	+ 2.7	na	na	+ 4.3	Sep	+ 4.5	+ 0.8	Sep	– 1.1

*RPI inflation rate 3.7% in Oct. †Jul-Sep.

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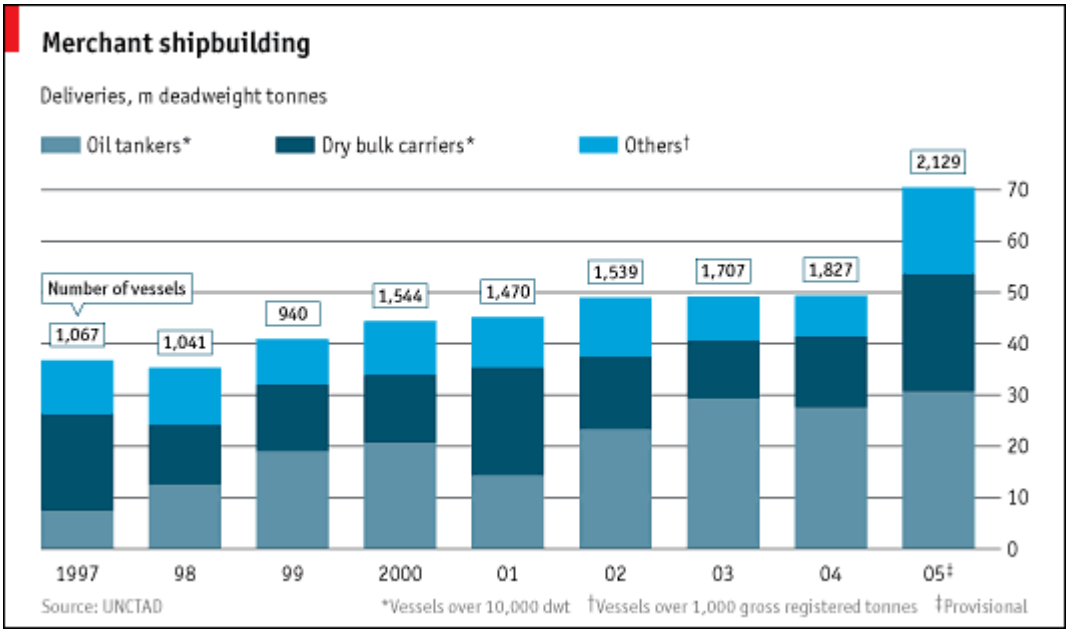
Merchant shipbuilding

Nov 23rd 2006
From The Economist print edition



The strong global economy has stimulated a boom in maritime trade, which has in turn caused an upsurge in shipbuilding. New ships delivered last year had a capacity of 70.5m tonnes, the highest on record and up from 49.4m in 2004. There was a particularly big increase in dry-bulk carriers, which carry commodities like iron ore and grain. Taking into account ships broken up and lost, the world merchant fleet grew by 7.2%.

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Money and interest rates

Nov 23rd 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 22nd 2006)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.6	+11.2	Sep	6.36	5.61	6.00	5.56	5.35	6.67
Britain	+ 5.5	+14.0	Oct	5.14	4.56	4.96	4.55	4.20	5.54
Canada	+ 8.8	+ 7.6	Sep	4.17	3.21	3.93	3.97	4.03	5.19
Denmark	+ 8.4	+ 8.0	Sep	3.62	2.45	3.73	3.66	3.44	5.08
Japan	+ 0.7	+ 0.7	Oct	0.40	0.02	0.80	1.67	1.48	1.86
Sweden	- 0.4	+14.4	Sep	2.88	1.51	3.48	3.52	3.34	3.79
Switzerland	- 2.3	+ 2.4	Oct	1.92	0.97	2.18	2.30	2.21	2.48
United States	- 0.4	+ 4.8	Oct	5.25	4.06	4.76	4.57	4.51	5.49
Euro area†	+ 7.1	+ 8.5	Sep	3.61	2.44	3.68	3.67	3.43	4.31

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.65%, Japan No. 283 1.66%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.25%, BOJ overnight call 0.25%, BOE repo 5.0%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Nov 23rd 2006
From The Economist print edition

2000=100

	Nov 14th	Nov 21st*	% change on one month	% change on one year
Dollar index				
All items	182.3	182.1	– 0.9	+ 33.3
Food	150.9	151.6	+ 2.0	+ 23.9
Industrials				
All	222.9	221.5	– 3.3	+ 42.9
Nfa†	133.9	136.6	– 1.5	+ 3.1
Metals	271.4	267.8	– 3.8	+ 60.2
Sterling index				
All items	145.9	145.4	– 2.3	+ 20.1
Euro index				
All items	131.6	131.3	– 3.1	+ 21.8
Yen index				
All items	199.0	199.2	– 2.2	+ 31.9
Gold				
$ per oz	620.90	628.50	+ 8.1	+ 27.8
West Texas Intermediate				
$ per barrel	58.34	57.87	– 2.5	– 0.7

*Provisional. †Non-food agriculturals.

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Stockmarkets

Nov 23rd 2006
From The Economist print edition

Market indices

	Nov 22nd	2006 high	2006 low	% change on one week	% change on record high	Dec 30th 2005 in local currency	Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,422.8	5,456.7	4,708.8	+ 0.4	– 0.6	+15.2	+21.7
Austria (ATX)	4,142.5	4,344.4	3,324.1	+ 0.8	– 4.6	+13.0	+23.9
Belgium (Bel 20)	4,221.8	4,273.8	3,445.1	– 1.2	– 1.2	+18.9	+30.4
Britain (FTSE 100)	6,160.3	6,254.9	5,506.8	– 1.1	– 11.1	+ 9.6	+22.2
Canada (Toronto Composite)	12,557.0	12,602.3	10,904.3	+ 1.1	– 0.4	+11.4	+14.0
Denmark (OMXCB)	408.1	408.1	325.0	+ 1.2	nil	+10.9	+21.7
France (SBF 250)	3,870.1	3,900.4	3,244.2	– 0.8	– 11.9	+17.2	+28.6
France (CAC 40)	5,452.5	5,511.5	4,615.4	– 1.1	– 21.2	+15.6	+26.8
Germany (DAX)*	6,476.1	6,476.1	5,292.1	+ 0.7	– 19.7	+19.7	+31.3
Italy (S&P/MIB)	40,861.0	40,861.0	34,850.0	+ 0.1	– 18.5	+14.4	+25.5
Japan (Nikkei 225)	15,914.2	17,563.4	14,218.6	– 2.0	– 59.1	– 1.2	nil
Japan (Topix)	1,552.9	1,783.7	1,458.3	– 2.5	– 46.2	– 5.9	– 4.7
Netherlands (AEX)	490.3	497.5	412.9	– 1.3	– 30.1	+12.3	+23.1
Spain (Madrid SE)	1,564.6	1,564.6	1,156.8	+ 1.1	nil	+35.3	+48.4
Sweden (Affarsvarlden Gen)	348.3	350.5	275.2	– 0.6	– 13.0	+18.7	+34.6
Switzerland (Swiss Market)	8,778.5	8,835.6	7,154.9	– 0.1	– 0.6	+15.8	+24.2
United States (DJIA)	12,327.0	12,342.6	10,667.4	+ 0.6	– 0.1	+15.0	+15.0
United States (S&P 500)	1,406.1	1,406.1	1,223.7	+ 0.7	– 7.9	+12.6	+12.6
United States (NASDAQ Comp)	2,466.0	2,466.0	2,020.4	+ 1.0	– 51.2	+11.8	+11.8
Europe (FTSEurofirst 300)†	1,466.0	1,473.8	1,238.7	– 0.3	– 14.0	+14.9	+26.0
Euro area (FTSE Euro 100)†	1,266.1	1,270.0	1,050.0	– 0.3	– 18.3	+16.3	+27.5
World (MSCI)‡	1,449.1	1,449.1	1,243.9	+ 0.6	nil	+15.2	+15.2
World bond market (Citigroup)††	659.4	659.4	612.1	+ 1.1	– 1.1	+ 6.3	+ 6.3

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 23rd 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Nov 22nd	year ago	Currency units per $ Nov 22nd	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006‡
Australia	− 9.6	Sep	− 41.0	Q2	− 5.6	− 5.2	119.5	117.9	1.29	1.35	2.47	1.65	1.11	+ 0.9
Austria	− 1.8	Aug	+ 9.2	Q2	+ 1.1	+ 1.1	105.8§	104.9	0.77	0.85	1.48	–	0.66	− 1.9
Belgium	+ 16.0	Sep	+ 6.5	Jun	+ 1.8	+ 1.9	107.5§	106.5	0.77	0.85	1.48	–	0.66	− 0.4
Britain	−144.2	Sep	− 64.4	Q2	− 2.6	− 2.8	102.3	97.8	0.52	0.58	–	0.67	0.45	− 3.4
Canada	+ 53.8	Sep	+ 28.6	Q2	+ 1.4	+ 0.9	126.1	124.3	1.14	1.17	2.18	1.46	0.98	+ 2.2
Denmark	+ 7.7	Sep	+ 7.6	Sep	+ 2.0	+ 1.9	106.6	105.9	5.76	6.33	11.0	7.38	4.94	+ 3.3
France	− 34.9	Sep	− 41.5	Sep	− 1.5	− 1.2	108.4§	107.2	0.77	0.85	1.48	–	0.66	− 2.9
Germany	+187.4	Sep	+107.5	Sep	+ 3.6	+ 3.7	110.2§	108.6	0.77	0.85	1.48	–	0.66	− 3.1
Italy	− 26.4	Sep	− 34.6	Aug	− 1.8	− 1.7	108.1§	106.9	0.77	0.85	1.48	–	0.66	− 4.2
Japan	+ 78.4	Sep	+168.1	Sep	+ 3.6	+ 3.6	79.8	81.7	117	119	223	149	–	− 5.2
Netherlands	+ 38.3	Sep	+ 63.2	Q3	+ 6.3	+ 5.7	108.4§	107.3	0.77	0.85	1.48	–	0.66	− 0.5
Spain	−107.4	Sep	− 98.4	Aug	− 8.1	− 7.8	105.9§	105.1	0.77	0.85	1.48	–	0.66	+ 1.1
Sweden	+ 19.1	Sep	+ 24.1	Q2	+ 6.4	+ 5.9	100.3	94.0	7.02	8.07	13.4	8.99	6.02	+ 1.7
Switzerland	+ 9.2	Oct	+ 55.3	Q2	+13.5	+12.9	105.2	106.4	1.23	1.32	2.35	1.57	1.05	− 0.2
United States	−849.5	Sep	−838.1	Q2	− 6.6	− 6.5	83.4	88.0	–	–	1.91	1.28	0.86	− 3.6
Euro area	− 24.1	Sep	− 44.1	Aug	− 0.4	− 0.1	119.4	115.5	0.77	0.85	1.48	–	0.66	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.3	Sep	+ 11.8	Sep	na	na	109.3§	108.0	0.77	0.85	1.48	–	0.66	+ 2.2
Greece	− 40.5	Aug	− 26.8	Sep	na	na	105.0§	104.1	0.77	0.85	1.48	–	0.66	− 3.0
Iceland	− 1.9	Sep	− 3.4	Q2	na	na	86.0**	102.3	71.6	62.9	137	91.7	61.4	+ 2.0
Ireland	+ 37.1	Sep	− 6.0	Q2	na	na	113.7§	112.0	0.77	0.85	1.48	–	0.66	− 0.3
Luxembourg	− 5.4	Aug	+ 4.2	Q2	na	na	107.5§	106.5	0.77	0.85	1.48	–	0.66	− 1.7
New Zealand	− 4.1	Sep	− 10.2	Q2	na	na	130.5	140.6	1.49	1.44	2.85	1.91	1.28	+ 4.6
Norway	+ 57.7	Oct	+ 56.5	Q2	na	na	106.3	111.1	6.38	6.68	12.2	8.17	5.47	+ 18.5
Portugal	− 22.9	Aug	− 16.4	Aug	na	na	106.0**	105.2	0.77	0.85	1.48	–	0.66	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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Exchange-rate forecasts

Nov 23rd 2006
From The Economist print edition

Exchange-rate forecasts

Currency units per dollar

	November 22nd	3-month	12-month
Euro area*	1.29	1.26	1.29
Japan	117	120	116
Australia	1.28	1.27	1.30
Britain†	1.91	1.91	1.96
Canada	1.14	1.14	1.18
Denmark	5.77	5.90	5.80
Sweden	7.02	7.30	7.20
Switzerland	1.23	1.26	1.23
China	7.86	7.60	7.00
Singapore	1.55	1.53	1.51
South Korea	934	990	1000
Brazil	2.17	2.20	2.35
Mexico	11.0	11.0	11.2
Poland	2.95	3.00	2.80
Russia	26.6	26.0	25.0
South Africa	7.13	7.80	8.00

Source: JPMorgan Chase *$ per € †$ per £

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Overview

Nov 23rd 2006
From The Economist print edition

Hong Kong's GDP growth rate picked up to 6.8% in the year to the third quarter, from 5.5% in the year to the second. Inflation there eased in the year to October, to 2.0% from 2.1% in September. It slipped in **Malaysia** too, from 3.3% to 3.1%.

Growth accelerated in **Venezuela**, from 9.2% in the year to the second quarter to 10.2% in the third. **Mexico's** growth rate slowed from 4.7% to 4.6% in the same period.

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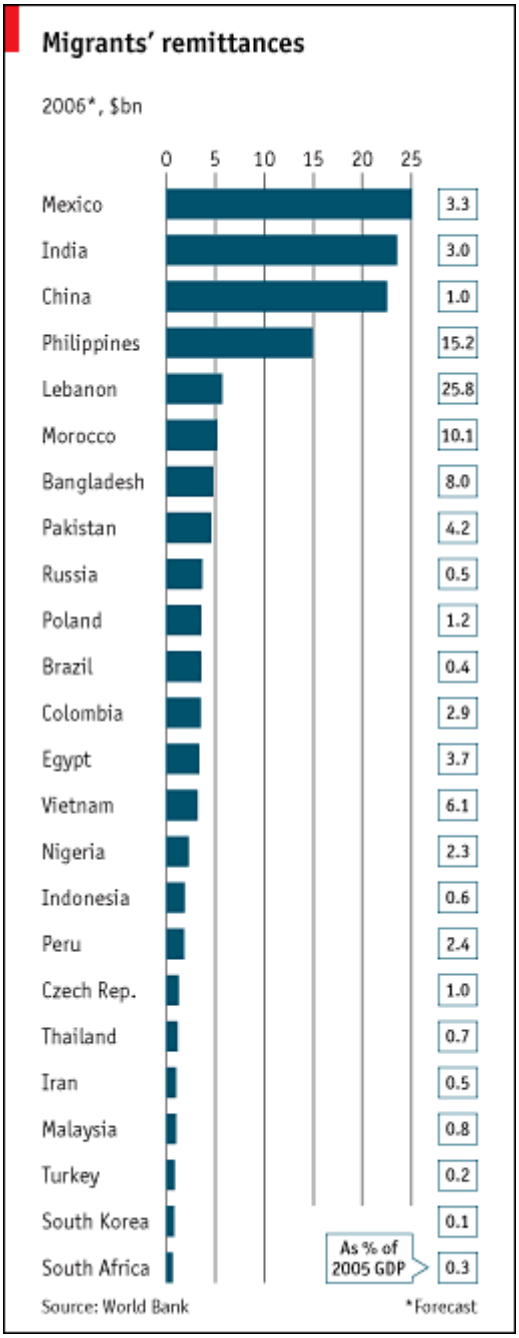
Migrants' remittances

Nov 23rd 2006
From The Economist print edition

Recorded remittances by migrants to their home countries should reach $268 billion this year, according to economists at the World Bank, just over twice as much as in 2000. Workers from developing countries account for most of this: they are forecast to send $199 billion home in 2006, compared with $85 billion six years ago. Perhaps not surprisingly, Mexico receives more from its citizens abroad than any other country.



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Economy

Nov 23rd 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.4	Q3	+14.7	Oct	+ 1.4	Oct	+155.2	Oct	+160.8	2005	987.9	Sep
Hong Kong	+ 6.8	Q3	+ 5.3	Q2	+ 2.0	Oct	−15.9	Sep	+18.6	Q2	131.2	Oct
India	+ 8.9	Q2	+11.4	Sep	+ 6.8	Sep	−42.0	Sep	−13.2	Q2	160.2	Oct
Indonesia	+ 5.5	Q3	+ 6.2	Aug	+ 6.3	Oct	+37.0	Sep	+ 4.1	Q2	38.4	Oct
Malaysia	+ 5.9	Q2	+ 3.6	Sep	+ 3.1	Oct	+28.6	Sep	+20.0	Q2	79.3	Sep
Pakistan	+ 6.6	2006†	+ 7.5	Aug§	+ 8.1	Oct	−12.8	Sep	− 5.0	Q2	11.0	Oct
Philippines	+ 5.5	Q2	− 7.0	Aug	+ 5.4	Oct	− 4.1	Aug	+ 4.3	Jun	19.4	Oct
Singapore	+ 7.2	Q3	+ 7.6	Sep	+ 0.4	Oct	+35.0	Oct	+39.0	Q3	131.9	Oct
South Korea	+ 4.6	Q3	+16.3	Sep	+ 2.1	Oct	+14.9	Oct	+ 6.9	Sep	229.5	Oct
Taiwan	+ 5.0	Q3	+ 1.1	Oct	− 1.2	Oct	+21.7	Oct	+26.3	Q3	261.8	Oct
Thailand	+ 4.9	Q2	+ 5.0	Sep	+ 2.8	Oct	− 1.2	Sep	+ 3.7	Sep	60.0	Sep
Argentina	+ 7.9	Q2	+ 7.3	Oct	+10.5	Oct	+11.6	Oct	+ 7.4	Q2	27.0	Sep
Brazil	+ 1.2	Q2	+ 1.3	Sep	+ 3.3	Oct	+46.5	Oct	+14.0	Oct	70.8	Sep
Chile	+ 4.5	Q2	− 2.6	Sep	+ 2.1	Oct	+21.2	Oct	+ 2.2	Q2	17.5	Oct
Colombia	+ 6.0	Q2	+14.9	Sep	+ 4.2	Oct	+ 0.6	Aug	− 2.2	Q2	15.0	Oct
Mexico	+ 4.6	Q3	+ 5.0	Sep	+ 4.3	Oct	− 5.3	Sep	− 0.6	Q2	82.4	Sep
Peru	+ 7.4	Sep	+ 9.9	Aug	+ 1.9	Oct	+ 8.0	Sep	+ 1.3	Q2	14.5	Sep
Venezuela	+10.2	Q3	+12.7	Aug	+ 8.7	Oct	+36.8	Q3	+29.7	Q3	27.2	Sep
Egypt	+ 5.9	Q1	+ 4.0	2005†	+11.8	Oct	−11.2	Q1	+ 1.8	Q2	24.0	Oct
Israel	+ 4.8	Q3	+ 6.2	Sep	− 0.2	Oct	− 7.6	Oct	+ 5.8	Q2	27.5	Oct
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	Aug	+125.6	2005	+90.0	2005	24.9	Sep
South Africa	+ 3.6	Q2	+ 1.9	Sep	+ 5.3	Sep	− 7.6	Sep	−13.3	Q2	22.1	Oct
Czech Republic	+ 6.2	Q2	+ 5.8	Sep	+ 1.3	Oct	+ 1.8	Sep	− 3.8	Q2	30.5	Oct
Hungary	+ 3.6	Q3	+11.8	Sep	+ 6.3	Oct	− 3.1	Sep	− 7.6	Q2	20.7	Oct
Poland	+ 5.5	Q2	+14.6	Oct	+ 1.2	Oct	− 3.8	Sep	− 5.9	Sep	46.7	Sep
Russia	+ 7.4	Q2	+ 5.4	Oct	+ 9.2	Oct	+142.7	Sep	+101.4	Q3	265.0	Oct
Turkey	+ 7.5	Q2	+ 4.0	Sep	+10.0	Oct	−51.4	Sep	−32.6	Sep	58.5	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+12.0	Q2	+ 1.8	Sep	+ 3.7	Oct	− 3.0	Aug	− 2.0	Sep	2.4	Sep
Latvia	+10.9	Q2	+ 2.5	Sep	+ 5.6	Oct	− 4.4	Sep	− 3.4	Sep	3.9	Sep
Lithuania	+ 6.3	Q3	na		+ 3.6	Oct	− 4.6	Sep	− 2.8	Sep	4.3	Sep
Slovakia	+ 9.8	Q3	+ 9.7	Sep	+ 3.7	Oct	− 3.3	Sep	− 5.0	Jul	12.6	Sep
Slovenia	+ 4.9	Q2	+ 7.5	Sep	+ 1.5	Oct	− 1.8	Sep	− 0.9	Sep	7.5	Aug

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Nov 23rd 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 22nd		Dec 30th 2005	
	Nov 22nd	year ago	Nov 22nd	% a year		one week	in local currency	in $ terms
China	7.86	8.08	15.1	3.50	2,145.9	+6.2	+ 75.8	+ 80.4
Hong Kong	7.79	7.75	14.9	4.00	19,250.8	+0.8	+ 29.4	+ 28.9
India	44.8	45.7	85.7	6.63	13,706.5	+1.8	+ 45.8	+ 46.5
Indonesia	9,134	10,053	17,482	10.85	1,705.4	+2.1	+ 46.7	+ 58.0
Malaysia	3.65	3.78	6.98	3.73	1,043.8	+1.5	+ 16.0	+ 20.3
Pakistan	60.8	59.8	116	10.32	10,646.2	-1.5	+ 11.4	+ 9.6
Philippines	49.7	54.2	95.2	6.31	2,855.2	+2.3	+ 36.2	+ 45.3
Singapore	1.55	1.69	2.97	3.42	2,830.0	+1.9	+ 20.6	+ 29.1
South Korea	934	1,036	1,787	4.62	1,422.5	+0.7	+ 3.1	+ 11.6
Taiwan	32.8	33.5	62.8	1.84	7,348.8	+1.5	+ 12.2	+ 12.4
Thailand	36.6	41.2	70.0	5.25	729.4	-0.6	+ 2.2	+ 14.6
Argentina	3.08	2.95	5.89	10.44	1,939.1	+1.1	+ 25.6	+ 23.5
Brazil	2.16	2.24	4.14	13.68	41,912.0	+1.5	+ 25.3	+ 35.2
Chile	529	525	1,013	5.04	11,585.6	+1.3	+ 25.8	+ 21.7
Colombia	2,284	2,279	4,372	6.77	10,346.6	-1.8	+ 8.8	+ 8.9
Mexico	11.0	10.6	21.0	7.04	24,674.8	+1.5	+ 38.6	+ 34.2
Peru	3.23	3.39	6.18	4.50	11,150.2	-0.3	+132.2	+146.6
Venezuela	3,213§	2,479§	6,149	10.00	41,868.5	+7.1	+105.3	+ 65.2
Egypt	5.72	5.76	10.95	9.46	57,723.9	+0.2	+ 4.3	+ 4.6
Israel	4.31	4.71	8.26	5.22	935.5	+0.9	+ 13.0	+ 20.6
Saudi Arabia	3.75	3.75	7.18	5.16	8,701.5	+3.6	- 47.9	- 47.9
South Africa	7.17	6.54	13.7	8.60	23,899.1	+1.0	+ 32.1	+ 16.9
Czech Republic	21.6	24.8	41.3	2.63	1,575.5	+1.8	+ 7.0	+ 22.0
Hungary	200	214	382	8.14	23,391.8	+0.8	+ 12.5	+ 20.7
Poland	2.95	3.33	5.65	4.19	49,698.1	+3.3	+ 39.6	+ 54.2
Russia	26.6	28.8	50.8	11.00	1,703.1‡	-0.2	+ 39.8	+ 51.3
Turkey	1.48	1.36	2.82	19.40	37,733.6	-4.8	- 5.1	- 13.1
EM (MSCI)*	1.00	1.00	1.91	na	859.9	+1.4	+ 21.7	+ 21.7
EMBI+†	1.00	1.00	1.91	na	402.0	nil	+ 9.0	+ 9.0

* Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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